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BUDGETING AND ACCOUNTING

HEARINGS

BEFORE THE

SUBCOMMITTEE ON REORGANIZATION

OF THE

COMMITTEE ON

GOVERNMENT OPERATIONS

UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

S. 3362, S. 3199, S. 2480, and S. 2369 S. 3897

RELATING TO BUDGETING AND ACCOUNTING

Part I

MARCH 20, 21, 26, 27, AND 28, 1956

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[1] Senator Strom Thurmond, South Carolina, was a member of the Committee on Government Operations and Subcommittee on Reorganization at the time of these hearings. Senator Thurmond resigned April 5, 1954. Senator Thomas A. Wofford was assigned to fill the vacancy April 18, 1956.

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BUDGETING AND ACCOUNTING

TUESDAY, MARCH 20, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON REORGANIZATION OF THE
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 357, Senate Office Building, Washington, D. C., Senator John F. Kennedy (chairman of the subcommittee), presiding.

Present: Senator John F. Kennedy, Democrat, Massachusetts; Senator Stuart Symington, Democrat, Missouri; Senator Norris Cotton, Republican, New Hampshire.

Present also: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator KENNEDY. The subcommittee will come to order.

This hearing has been called to consider recommendations made by the Hoover Commission relating to the Federal Government's budgeting, accounting, and fiscal reporting programs.

Four bills which would implement the Commission's recommendations in these important areas will be considered during the hearing. They are:

S. 3362, which would expedite the payment of certified claims against the Government for which appropriations have lapsed;

S. 3199, which would require agencies in the executive branch to establish cost-based budgets, maintain their accounts on an accrued basis, create a staff office of accounting in the Bureau of the Budget; and make certain other changes in budgeting and accounting procedures; and

S. 2480 and S. 2369, which are identical bills, and which also would establish a staff office of accounting in the Bureau of the Budget.

The first part of the hearing this morning will be devoted to S. 3362, which relates to the payment of certified claims.

I am advised that this bill has the approval of the Bureau of the Budget, the General Accounting Office, and the Treasury Department, subject to certain technical changes which the subcommittee will consider at this time.

These agencies agree that the accounting improvements incorporated in this measure will greatly facilitate the payments of claims and substantially reduce the administrative expenses of handling them—without the sacrifice of appropriate safeguards.

When we have concluded the testimony on S. 3362, we will take up S. 3199, S. 2480 and S. 2369.

At this point, the chair desires to place in the record copies of S. 3362, S. 3199, S. 2480, and S. 2369, along with pertinent memoranda prepared by the subcommittee staff.

(The matter referred to is as follows:)

[S. 3362, 84th Cong., 2d sess.]

A BILL To simplify accounting, facilitate the payment of obligations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, except as otherwise provided by law, (a) the account of each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the activity responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived.

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement, on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation as of the close of the fiscal year as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals required pursuant to subsection (a) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically but at least once each fiscal year, by each activity responsible for the liquidation of the obligations chargeable to such accounts. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess shall be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals

required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this Act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this Act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this Act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the activity currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled or will not be undertaken or continued; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed.

(a) The proviso under the heading "Payment of certified claims" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "Payment of certified claims" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. C. C. 715).

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia.

[S. 3199, 84th Cong., 2d sess.]

A BILL To improve governmental budgeting and accounting methods and procedures, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 213 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 21), is amended by adding at the end thereof the following: "The Director shall utilize information obtained under this section, among other pur-

poses, to prepare comprehensive reports, other than purely fiscal reports, showing the financial results of the activities of the departments and establishments. Such reports shall be prepared on a fiscal year basis, or at such shorter intervals as the Director may deem practicable, and shall be transmitted to the President and to the Congress."

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is amended to read as follows:

"SEC. 216. (a) For purposes of administration and operation, cost-based budgets shall be used by all departments and establishments and their subordinate units. Fund allocations within the departments and establishments shall be made on the basis of such cost budgets.

"(b) Subordinate operating units within a department or establishment shall submit quarterly performance reports to the head of such department or establishment, and the head of each department or establishment shall submit a report to the bureau, not later than September 30 of each year, on the conduct of its operations in the preceding fiscal year. The bureau shall, on the basis of such reports, submit an annual performance report to the President for all the departments and establishments.

"(c) Requests for regular, supplemental, or deficiency appropriations which are submitted to the bureau by the head of any department or establishment shall be prepared on a cost basis and shall include such data and be submitted in such manner as the President may determine in accordance with the provisions of section 201 of this Act.

"(d) The Budget, required by section 201 of this Act to be transmitted to the Congress, shall contain information on program costs and accomplishments, and a review of performance by organizational units whenever such units do not coincide with performance budget classifications."

(c) Title II of such Act, as amended, is amended by adding at the end thereof a new section as follows:

"SEC. 218. The director, under such rules and regulations as the President may prescribe, shall designate and assign qualified personnel of the bureau to serve in the principal departments and establishments, as determined by the President, for the purpose of maintaining a continuous review by the bureau of budget preparation and administration within any such department or establishment, and to further assist the bureau in carrying out its managerial functions and responsibilities. Not more than two persons for each principal subdivision of a department or establishment shall be assigned by the director to any one department or establishment, and, insofar as practicable, persons so assigned to any department or establishment shall possess the combined skills of the statistician, cost accountant, administrative expert, and program analyst. No such person shall be so assigned to any department or establishment for more than two consecutive years."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) Section 104 of the Budget and Accounting Procedures Act of 1950 (31 U. S. C. 18a) is amended by adding at the end thereof a new sentence as follows: "Each executive agency of the Government shall, under the general supervision of the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, consistency in its organizational structure, budget classifications, and accounting systems."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show currently, completely, and clearly the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets and agency reports as required by section 216 of the Budget and Accounting Act, 1921. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Such Act is further amended by adding after section 119 thereof the following new sections:

"STAFF OFFICE OF ACCOUNTING

"SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting, to be appointed by the President, and to receive compensation at the rate of $ per annum.

"(b) It shall be the duty of the Assistant Director for Accounting—

"(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

"(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

"(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

"(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

"(5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

"COMPTROLLERS FOR EXECUTIVE AGENCIES

"SEC. 121. (a) The head of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a Comptroller who shall be directly responsible to him, and who shall have the following functions and duties—

"(1) to supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 hereof;

"(2) to direct the recruitment, training, and development of qualified accounting personnel for such agency;

"(3) to develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies;

"(4) to interpret and advise upon significant aspects of the financial reports of the agency; and

"(5) to direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets."

SIMPLIFICATION OF ALLOTMENT SYSTEM FOR ALLOCATING FUNDS

SEC. 3. It is the intent of the Congress that each executive agency, as defined in section 118 of the Budget and Accounting Procedures Act of 1950, shall take whatever steps are necessary to simplify the allotment system for allocating funds to operating units within such agency, and in making such simplification each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one allotment for each appropriation affecting such unit.

SINGLE AGENCY ACCOUNTS

SEC. 4. (a) Each executive agency, as defined in section 118 of the Budget and Accounting Procedures Act of 1950, shall, in accordance with principles and standards prescribed by the Comptroller General, maintain a single account under each appropriation title or fund.

(b) This section shall take effect on the first day of the first fiscal year commencing after the date of enactment of this Act.

JOINT STUDY BY BUREAU OF BUDGET AND GENERAL ACCOUNTING OFFICE

SEC. 5. (a) The Director of the Bureau of the Budget and the Comptroller General shall jointly undertake a study and investigation to determine—

(1) what steps can be taken to eliminate (A) duplicate accounts within the Treasury Department, and (B) duplicate accounting as between the

Treasury Department and the other departments and agencies of the Government; and

(2) the adequacy of internal auditing in the executive departments and agencies of the Government.

(b) The Director of the Bureau of the Budget and the Comptroller General shall report the results of their study and investigation together with such recommendations as they deem appropriate, to the Congress not later than two years after the date of enactment of this Act.

[S. 2480, 84th Cong., 1st sess.]

A BILL To provide for improving accounting methods in the executive branch of the Government, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Budget and Accounting Procedures Act of 1950 is hereby amended by adding after section 119 thereof the following new sections:

"STAFF OFFICE OF ACCOUNTING

"SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting, to be appointed by the President, by and with the advice and consent of the Senate, and to receive compensation at the rate of $ per annum.

"(b) It shall be the duty of the Assistant Director for Accounting—

"(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

"(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

"(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

"(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

"(5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

"COMPTROLLERS FOR EXECUTIVE AGENCIES

"SEC. 121. (a) The head of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a Comptroller who shall be directly responsible to him, who shall receive compensation at the rate of $ per annum, and who shall have the following functions and duties—

"(1) to supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 hereof;

"(2) to direct the recruitment, training, and development of qualified accounting personnel for such agency;

"(3) to develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies;

"(4) to interpret and advise upon significant aspects of the financial reports of the agency; and

"(5) to direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets."

[S. 2369, 84th Cong., 1st sess.]

A BILL To provide for improving accounting methods in the executive branch of the Government, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Budget and Accounting Procedures Act of 1950 is hereby amended by adding after section 119 thereof the following new sections:

STAFF OFFICE OF ACCOUNTING

SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director for Accounting, to be appointed by the President, by and with the advice and consent of the Senate, and to receive compensation of $ per annum.

(b) It shall be the duty of the Assistant Director for Accounting—

(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

(5) to report to the Director of the Bureau of the Budget at least once a year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

COMPTROLLERS FOR EXECUTIVE AGENCIES

SEC. 121. (a) The head of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a comptroller who shall be directly responsible to him, who shall receive compensation at the rate of $ per annum, and who shall have the following functions and duties:

(1) To supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 thereof.

(2) To direct the recruitment, training, and development of qualified accounting personnel for such agency.

(3) To develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies.

(4) To interpret and advise upon significant aspects of the financial reports of the agency.

(5) To direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets.

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84–2–3, FEBRUARY 28, 1956

Subject: Draft of bill relating to the payment of certain claims against the Government where the appropriation therefor has lapsed.

The attached draft of a bill was prepared by the General Accounting Office in cooperation with the Bureau of the Budget and Department of the Treasury for the purpose of improving accounting in accordance with the recommendations of the second Hoover Commission, in its report on Budgeting and Accounting.

The attached bill would supersede S. 2678, introduced by Senator Smith of New Jersey, last July, which is pending before the subcommittee. The agencies referred to above, after thorough examination of the problem, have recommended a number of significant improvements which it is believed can be handled more expeditiously by introduction of a clean bill.

The revised draft has been cleared by the Bureau of the Budget with all affected departments and agencies which are in accord with its objectives. However, the Department of Defense has suggested certain technical changes which have not been accepted by the Bureau of the Budget or the General Accounting Office.

PURPOSE

This bill would change the existing requirement of law with respect to appropriations available for a definite period of time, by (1) closing such accounts at the end of the obligation period (June 30 each year) instead of at the end of 2 succeeding years, and (2) by extending indefinitely the authority of the agencies to liquidate undisputed liabilities incurred against prior-year appropriations. At the present time obligations chargeable to lapsed appropriations are examined by the agency and forwarded to the General Accounting Office for approval. They are then transmitted to the Treasury where, if funds are available, they are paid; if not available, they are included in a deficiency appropriation request. Under the proposed legislation the various agencies of the Government would be permitted to pay these claims; however, if a question of law or fact is involved the claims would be sent to the GAO for approval.

The bill is designed to improve the appropriation and fund accounting of the departments and agencies of the Government, authorize the elimination of approximately 35,000 detailed ledger accounts maintained by the General Accounting Office, Department of the Treasury, and other agencies; and facilitate the payment of claims for money due and payable from lapsed appropriations. Payment from the lapsed appropriations would be possible by transferring, at the end of each fiscal year, the obligated balance of each account to a consolidated appropriation account from which agencies would approve claims presented for payment after the close of the fiscal year.

It is understood that the Department of Defense prefers that this draft be changed to permit the transfer of lapsed appropriations into one account; authority to restore funds to, or in some instances from certain accounts, and contends that it needs a year or two lead time prior to implementation of this procedure.

The General Accounting Office reported to the committee that the following advantages will accrue to the Government if this proposal is enacted into law:

(1) We believe that this substitute bill will satisfactorily fulfill the objectives of S. 2678, and, in addition, will result in substantial accounting improvements which the pending measure does not contemplate.

(2) Since the "Payment of certified claims" is classified as a Treasury Department appropriation account, the liquidation of outstanding obligations against lapsed appropriations is recorded as an expenditure of that Department, rather than an expenditure of the agencies benefiting therefrom. This accounting treatment overstates expenditures of the Treasury Department and correspondingly understates expenditures of the agencies which incurred the obligations.

(3) We believe the legislation which we are proposing is sound in principle and will materially advance the cause of accounting improvement in the Government, with substantial decrease in the cost of administration, and with no sacrifice of the appropriation safeguards.

GLENN K. SHRIVER,
Professional Staff Member.

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84–2–4

Subject: S. 3362 (Kennedy)—To simplify accounting, facilitate the payment of obligations and for other purposes.

This memorandum is intended to supplement the information contained in staff memorandum 84–2–3, dated February 28, 1956, which contained a brief outline of the salient features of S. 3362 prior to its introduction in the Senate.

This bill will make possible certain improvements in accounting, disbursing and fiscal reporting throughout the Government without removing the safeguards which are needed to assure that appropriations are controlled in accordance with the purpose and intent of Congress. The objectives to be attained by this bill have been studied by the Joint Accounting Improvement Committee, composed of technicians of the Department of the Treasury, Bureau of the Budget, and General Accounting Office during the past 5 years. These departments and agencies have approved this bill.

The Hoover Commission and its task force recommended in its report on budget and accounting that the various agencies of the Government be authorized to settle delayed bills without prior approval of the General Accounting Office and that one account be established for controlling the amount available for liquidation of valid obligations.

The Hoover Commission's recommendation follows:

"That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations" (recommendation No. 17).

The Commission further stated that:

"All agency disbursements must be related to a legal appropriation. Where the appropriations are annual appropriations (as distinguished from no-year appropriations) the agencies are authorized to make payments therefrom during the fiscal year for which appropriated or during the succeeding 2 fiscal years. This results in keeping separate accounts for appropriations, allotments, suballotments, obligations and related cash payments for each of 3 years. The effect is an unnecessary complication in the accounting for disbursements in executive agencies and in the separate accounts maintained at the Treasury.

"The agencies should be authorized to merge the balance of unliquidated obligations under any one appropriation title with the latest annual appropriation under that same title.[1] Annual appropriations which are not obligated within the appropriation year cease to be available and at the end of such year would be eliminated. The remaining balances should be available for liquidation of legal abilities until expended or written off."

At the present time vouchers which are submitted to the respective agencies for payment after the appropriations have lapsed, are referred to the General Accounting Office, for review, and clearance before submission to the Treasury Department. These vouchers are commonly referred to as "claims," however they are not a "claim" as that term is generally used in the legal profession, but merely bills which were submitted for payment after the appropriation has lapsed.

The Hoover Commission considered this procedure of handling so-called claims or delayed bills and made the following recommendation:

"That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as 'claims' to the General Accounting Office, but should be settled within the agencies" (recommendation No. 18).

Section 305 of the Budget and Accounting Act of 1921 provides:

"All claims and demands whatever by the Government of the United States or against it, * * * shall be settled and adjusted in the General Accounting Office."

"There are some exceptions. These include the Internal Revenue Service for income tax matters; the Railroad Retirement Board for pension claims; the Social Security Administration for old-age and survivor insurance claims; and the Veterans' Administration for benefit payments. Otherwise, "claims" made against an executive agency are reviewed by the agency concerned and then submitted to the General Accounting Office for settlement. Where the claim relates to an open appropriation it is, if approved by the General Accounting Office, returned to the executive agency for payment. Requests for payment under lapsed appropriations are currently designated as "claims" and hence are referred to the General Accounting Office. Such claims are, if approved by the General Accounting Office recorded in the records of that office. They are then referred to the Treasury Department for payment from the "payment of certified claims" account.

"During 1954, 38,000 of the claims received by the General Accounting Office related to lapsed appropriations. Approximately 28,000 of them did not involve

[1] This bill would not merge the unliquidated balances of appropriations, but would authorize writing off these amounts. However, the obligated balance would be transferred to a no-year account for payment of delayed bills.

any doubtful or complex matter. It is apparent that under existing procedure the General Accounting Office is engaged in examining and settling as "claims" many requests for payment which are routine and involve no questions of law or fact. Substantial economies would be obtained if the agencies were authorized to make direct settlement of claims without their prior submission to the General Accounting Office, except in those cases involving questions of law or fact. If this were done, unexpended balances of closed appropriations which are normally transferred to the "payment of certified claims" account maintained at the Treasury Department would be retained in the agencies. Agency procedures in settling claims would, of course, be subject to review and audit by the General Accounting Office."

CONCLUSION

During the last 6 months of 1947 the staff of this committee, at the direction of the chairman, made a study of the accounting and financial reporting system of the Government for the purpose of focusing attention on certain orders and regulations which compelled the agencies to maintain, duplicate records, and prepare certain reports which were of questionable value to the agencies concerned.

As a result of this survey and staff memorandum No. 1 dated August 21, 1947, the General Accounting Office, Bureau of the Budget and Department of the Treasury set up accounting survey committees, which later became the joint accounting improvement program, authorized by the Budget and Accounting Procedures Act of 1950, Public Law 784, approved September 12, 1950.

The procedures and methods followed, for the payment of "claims" was one of the activities which this group of technicians studied during the past 5 years, and as a result of its study and discussion with the Hoover Commission Task Force on Budgeting and Accounting, the Commission recommended that improvement be made to expedite the payment of obligations chargeable to lapsed appropriations.

The General Accounting Office has assured the staff that should this bill be enacted into law, it will expedite the payment of old bills, make possible the abolition of a substantial portion of the 35,000 accounts now required for payment of these bills, and save manpower and reduce administrative expenses in the General Accounting Office and in other departments and agencies.

GLENN K. SHRIVER,
Professional Staff Member.

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84–2–5, MARCH 7, 1956

Subject: S. 2369 (Smathers for Kennedy), to provide for improving accounting methods in the executive branch of the Government, and for other purposes.

PURPOSE

S. 2369 is designed to implement recommendations Nos. 10, 11, and 12 of the Second Hoover Commission Report on Budget and Accounting. S. 2480 (McCarthy), is identical. The purpose of S. 2369 is to authorize the establishment of a Staff Office of Accounting in the Bureau of the Budget, the head of which would be an Assistant Director appointed by the President and confirmed by the Senate. This official would be responsible for developing and promulgating overall accounting and reporting procedures, and would assist in introduction of modern accounting systems, follow-up on performance by the various agencies, assist in selection and training of accountants, and make such reports as are required by the Director of the Bureau of the Budget.

Section 121 of the bill would authorize the head of each agency to appoint a comptroller for his department, after consultation with the Assistant Director of the Bureau of the Budget for Accounting.

The agency Comptroller would, under this bill, supervise the establistment and maintenance of adequate accounting and reporting systems, direct the training of accounting personnel, prepare reports for internal management purposes, for submission to Congress, interpret reports, and direct the preparation of budget estimates at the operating level within the agency.

In a report to the chairman of the subcommittee, dated November 15, 1955, the Comptroller General commented as follows on this bill:

"It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of management to be successful. However, the objective of the proposed legislation, namely, placing added emphasis on getting the job done governmentwide, could be very helpful in expediting progress and need in no way be deemed inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, Director of the Bureau of the Budget, and the Comptroller General of the United States for several years.

"We do not believe that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of Assistant Director for Accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

"Section 121 provides for Comptrollers in each executive agency. Here, again, we do not believe that legislation is required. Because of the wide divergence in size, functions and existing organizational patterns in the many executive agencies, we believe it would be preferable for the statute to omit or, in any event, be less specific as to the title and compensation of the official to whom the head of the agency would assign the functions and duties described if legislation is deemed desirable. * * *"

In support of his views the Comptroller General transmitted by letter dated November 15, 1955, the following additional comments on recommendations numbered 10, 11, and 12 of the Hoover Commission report:

Recommendation No. 10

"That there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

"(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

"(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

"(*c*) To set reasonable but definite time schedules for performance and to watch progress.

"(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

"(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

"The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. As the Committee on Government Operations is well aware, through its activities in connection with the Budget and Accounting Procedures Act of 1950, that statute recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget and the Comptroller General, for making continuing improvements in the financial management of Federal Government activities.

"In its accounting and reporting provisions the statute clearly places responsibility upon the Comptroller General for principles, standards, and related requirements; directs the General Accounting Office to cooperate with the executive agencies in the development of their accounting systems and to approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards, and related requirements prescribed by him; and places upon the General Accounting Office the responsibility for the review of accounting systems of the executive agencies. As recognized in the report of the Hoover Commission on Budget and Accounting, the Comptroller General has

equipped himself to carry out these responsibilities through the exercise of his accounting systems function. Particular stress in the report is laid upon the excellent cooperation developed between the General Accounting Office and the executive agencies. No diminution or change in this cooperative working relationship between the General Accounting Office and the executive agencies is contemplated, nor do we presume that any change is intended or implied by the recommendations under discussion.

"Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950 of establishing and maintaining adequate systems of accounting and internal control in conformity with the principles, standards, and related requirements prescribed by the Comptroller General as referred to therein. It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of agency management to be successful. However, the added emphasis on getting the job done governmentwide, contemplated by the above recommendation, could be very helpful in expediting progress if appropriately carried out. Such an effort need in no way be exercised in a manner inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States for the last several years. The essence of this arrangement is the recognition of the fact that each of the central agencies concerned, along with individual executive agencies, has a part to play in the total operation and that the desired results can only be achieved through joint efforts carried out with mutual respect for the responsibilities of each."

Recommendation No. 11

"That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

"(a) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

"(b) To direct the recruitment, training, and development of qualified accounting personnel.

"(c) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

"(d) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

"We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of this recommendation. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies. In the final analysis the responsibility for financial management must necessarily rest upon the head of each executive agency as a part of his total management responsibility. This has been made abundantly clear as a matter of statute in section 113 (a) of the Budget and Accounting Procedures Act of 1950, previously referred to above."

Recommendation No. 12

"That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget.

"This recommendation is one facet of the larger problems commented upon in connection with the two preceding recommendations and is covered by our previous comments."

On July 26, 1955, the chairman of the Subcommittee on Reorganization requested comments and recommendations from all of the major departments and agencies of the Government, however, as of this date, only one agency replied and its comments are included in this memorandum.

In some respects the objectives intended under this bill are analogous to the purpose contemplated by recommendation No. 10 of the first Hoover Commission.

This recommendation follows:

"(*a*) An Accountant General be established under the Secretary of the Treasury with authority to prescribe general accounting methods and enforce accounting procedures. These methods and procedures should be subject to the approval of the Comptroller General within the powers now conferred upon him by the Congress.

"(*b*) The Accountant General should, on a report basis, combine agency accounts into the summary accounts of the Government and produce financial reports for the information of the Chief Executive, the Congress, and the public."

In 1950 the Committee on Government Operations held extensive hearings on S. 2054, a bill to implement recommendations of the first Hoover Commission. During these hearings the advantages and disadvantages incident to the establishment of an office of an Accountant General in the Department of the Treasury was considered by the committee and rejected because (1) the Comptroller General, who is an arm of the legislative branch of the Government, has had this responsibility for many years and has performed it satisfactorily, and (2) the surveillance over accounting and fiscal matters are a legislative responsibility, as contrasted to executive department responsibility.

CONCLUSION

It is recommended that action on this proposal be coordinated with other bills pending before the subcommittee, which relate to budgeting and accounting procedures of the Government, and on which separate staff memorandums have been prepared.

GLENN K. SHRIVER, *Professional Staff Memmber.*

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84–2–6, MARCH 16, 1956

Subject: S. 3199 (Payne), to improve governmental budgeting and accounting methods and procedures, and for other purposes.

PURPOSE

This bill (S. 3199) is intended to improve the budget and accounting procedures of the Government by, (1) requiring the departments and agencies to establish cost-based budgets, (2) detailing budget analysts from the Bureau of the Budget to the agencies for coordination of fiscal affairs, (3) maintaining agency accounts on an accrual basis, (4) authorizing the establishment of a Staff Office of Accounting in the Bureau of the Budget, (5) authorizing the establishment of an office of Comptroller in each agency, and (6) requiring the Director of the Bureau of the Budget and Comptroller General of the United States to make a study of the accounting and auditing procedures of the Government and transmit recommendations to Congress within 2 years after enactment of this act.

When this bill was introduced, the sponsor, Senator Payne, stated: "The bill I am introducing today is designed to put into effect the majority of the (Hoover Commission) recommendations * * *. It does include some recommendations that could be carried out by administative action. While I fully realize the desirability of leaving the executive branch as free as possible in the matter of administration, I also feel that the problem of financial budgeting and accounting is of such importance that the Congress should very clearly set forth the basic requirements by statute" (p. 2198, Congressional Record, dated February 14, 1956).

HOOVER COMMISSION RECOMMENDATIONS

As noted above, this bill is intended to implement the recommendations of the second Hoover Commission in its report on budget and accounting. In general, the bill proposes to place departmental and agency accounting on an accrual basis and insofar as possible convert to a cost basis of accounting with the budgetary requirements integrated with the accounting system.

The Commission recommended that:

1. The Bureau of the Budget expand its managerial and budgetary functions, by placing budget analysts in each agency, for advice, surveillance, and coordination of program and fiscal affairs.

2. The agencies submit annual performance reports to the Bureau of the Budget and the Bureau consolidate such reports for the President.

3. Cost-based operating budgets be used for management of agency funds and supplemented by periodic reports on performance.[1]

4. The executive budget be continued on functions, activities, and projects, and supported by program costs and accomplishments.

5. The agencies synchronize their organization structure, budget classification, and accounting systems.

6. Agency budgets be formulated and administered on a cost basis.[1]

7. Agency budgets and appropriations be in terms of estimated annual accrued expenditures, i. e., cost of goods and estimated services to be received.

8. Legislation committing the Government to continuing expenditures not susceptible to usual budgetary control be enacted for a limited term in order to require periodic congressional review of their usefulness.

9. The Bureau keep continuing or special programs under continuing review and the President's budget contemplate amendments when their operations conflict with current budgetary policy.

10. There be established a Staff Office of Accounting in the Budget Bureau, with authority to:

(*a*) promulgate accounting and reporting procedures.

(*b*) introduce modern accounting methods.

(*c*) set time schedules for performance and progress.

(*d*) stimulate the building of competent accounting organization, through the selection and training of accountants.

(*e*) report performance to the Director of Bureau of the Budget, annually.

11. A position of comptroller be established in principal agencies with authority to:

(*a*) direct the setting up and maintenance of adequate accounting systems in the agencies.

(*b*) direct the recruitment and training of accountants.

(*c*) develop reliable information for internal management, and for Congress.

(*d*) advise and interpret financial reports.

(*e*) direct the preparation and review of executive budgets.

12. The Assistant Director for Accounting be given authority to recommend selection of comptroller's, accountants, and training of fiscal personnel.

13. The allotment system be simplified and restrict each operating unit to a single allotment for each appropriation.

14. The Government's accounts be maintained on an accrual basis and develop budgets from this standpoint.

15. After the adoption of accrual and cost accounting systems by Government agencies, the creation or continuation of revolving funds be reviewed to determine whether they add to efficient management.

16. Agencies accelerate the installation of monetary property accounting records as part of the accounting system.

17. Each agency be authorized to maintain one account for each appropriation for liquidation of valid obligations. (S. 3362 will effectuate, in part, this recommendation.)

18. Vouchers which are otherwise valid but chargeable to lapsed appropriations should not be referred to the GAO, as claims, but should be settled by the agencies concerned. (S. 3362 will effectuate this recommendation.)

19. The Comptroller General be given authority to relieve accountable officers of financial liability, except where losses result from gross negligence or fraud. (Effectuated by Public Laws 334 and 365, 84th Cong.)

20. The Budget Bureau and GAO study the accounting system to eliminate duplicate accounting in the Treasury, and in the agencies.[2]

21. Continuous emphasis be placed on the review and modernization of central fiscal reports of the Treasury, to meet changing requirements of the agencies, the Congress, and the public. These reports should show the Government's cash position.

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[1] Recommendations Nos. 3 and 6 could be combined, however the one refers to formulation whereas the other has to do with the execution of the budget.

[2] Recommendation No. 20 refers to accounting procedures whereas recommendation No. 25 is intended to cover the auditing functions carried on by the various agencies of the Government.

22. Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Budget Bureau responsible for developing comprehensive financial reports.

23. The selection of civilian comptrollers (for the military departments) be made from individuals having broad management and accounting experience.

24. The comptrollers of the military departments be responsible to the Secretary of their department, and the concurrent responsibility to the Chief of Staff or equivalent be discontinued.

25. The Budget Bureau and GAO make a study to determine adequacy of internal auditing in Government agencies, and determine what steps should be taken to improve it.[2]

It should be noted that three members of the Commission did not agree with the majority on this report. For ready reference the views of the dissenting members are summarized herein.

Commissioner Brown, dissented to recommendation No. 7—the converting of the congressional appropriation structure to an estimated annual accrued expenditures basis.

Commissioners Farley and Holifield filed general dissents to the Commission recommendations because they felt that the recommendations may be good from a theoretical accounting standpoint but questioned whether they would produce the desired results. Commissioner Farley further stated that, "the transition to cost-basis accounting will require tremendous expense and inconvenience, and there is insufficient evidence that it will be universally workable and worthwhile." Commissioner Holifield stated that "the report tends to exalt the role of the accountant in Government just as the Commission's report on legal services tends to exalt the role of the lawyer in Government."

AGENCY COMMENTS

By letter dated March 7, 1956, the Comptroller General submitted his views and comments on this bill to the chairman of the Subcommittee on Reorganization. His recommendations are contained in enclosure (A) which is attached to this memorandum.

STAFF COMMENTS

1. The overall objectives of this bill appear laudable. The preparation and administration of agency budgets on a cost-basis as proposed in section 216 has considerable merit in that it would permit the head of the agency, the Bureau of the Budget, and the Congress, to determine the actual cost of carrying on programs and activities in a businesslike manner. To some extent this is now being done in some agencies and has proven to be workable and effective.

The GAO has approved this type of budgeting and recommended that further amendments be considered to provide for stating appropriations on an accrued expenditure basis.

2. The language contained in section 1 (a) of this bill would not change or improve the existing financial requirements of the Government. This section of the bill would require the Director of the Bureau of the Budget to prepare periodic reports, other than fiscal, showing the financial results of the activities of Government departments, for submission to the President and to Congress.

In view of the fact that each agency is now required to transmit monthly obligation and expenditure reports to the Bureau of the Budget, and the Bureau transmits an annual budget to the Congress, supported by detailed statistics and agency testimony, it is not clear what this section would add to the existing budgetary procedure. In addition, the Appropriations Committees automatically receive reports on and may request additional information on the status of any appropriation or activity at any time throughout the year.

3. The General Accounting Office reported that the type of reports intended under section 216 (b) of the bill is not clear. Most of the departments and agencies now prepare internal operating reports for review and management of programs and appropriations made available by the Congress. The same information is available to the Bureau of the Budget which can analyze, evaluate, or consolidate for any purpose which it deems advisable.

4. The GAO questions the desirability of establishing a Staff Office of Acccounting in the Bureau of the Budget as contemplated by section 120 of this bill, because it would "freeze" the organizational structure and prohibit realinement of functions and activities of that part of the Bureau.

A somewhat similar proposal was made by the first Hoover Commission, but after extensive hearings and study the Congress rejected the establishment of an Office of Accountant General in the Treasury Department.

5. The conversion of the budget and accounting system of the Government to an accrual basis has considerable merit, however, there is some reluctance to install the cost accounting concept in all of the departments and agencies at one time. Extensive consideration should be given to this phase of the bill, lest the system be strangled by legislative restrictions or statutory limitations thereby defeating the purpose for which intended.

GLENN K. SHRIVER,
Professional Staff Member.

ENCLOSURE A

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, D. C., March 7, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Committee on Government Operations, United States Senate.

DEAR MR. CHAIRMAN: Your letter of February 21, 1956, acknowledged February 23, requests our views and recommendations on S. 3199, 84th Congress, which would carry out various recommendations in the Report of the Hoover Commission on Budget and Accounting.

Section 1 (a): This section, which relates to additional comprehensive reports other than purely fiscal reports to be prepared by the Director, Bureau of the Budget, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involves management decisions affecting the Bureau. While these are matters that can best be determined by the Bureau and the Congress, we believe that this information should be obtained through the regular budgetary processes and included in the President's annual budget.

Section 1 (b): This section would amend section 216 of the Budget and Accounting Act, 1921. If cost based budgets were used for management purposes in making fund allocations within the departments and establishments as proposed by section 216 (a), the information submitted by the departments and establishments to the Bureau of the Budget for budgetary purposes would be substantially more meaningful. This would permit periodic reports on accomplishments or performance to be related to budgets in terms of costs, the advantages of which are discussed more fully in our comments on the proposed amendment to section 216 (c). We endorse this proposal.

As to the proposed section 216 (b), we believe the President should be kept informed in a timely manner of significant factors relating to the operating agencies of the executive branch. The annual consideration of the budget of each agency serves as the basis for a review of operations. While the type of annual report intended under the proposed section 216 (b) is not entirely clear, the desirability of a separate report for the executive branch as a whole seems questionable. We are inclined to think that the total Government area is so broad that information and evaluation is ordinarily most meaningful at the major program or bureau level. We believe that this information should be obtained by the Bureau of the Budget to the extent deemed necessary through the regular budgetary processes and could be submitted in support of the annual budget without the enactment of specific legislation.

The proposed sections 216 (c) and (d), if effectively carried out, would offer a great opportunity for improvement in the financial management of executive agencies. The background discussion and explanation for recommendation No. 6 in the reports of the Hoover Commission and its Task Force on Budget and Accounting explains the need for this amendment and need not be repeated here. Briefly, the more important advantages are:

1. Cost data (based on man-days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.

2. A proposed work plan (budget) stated in terms of costs (total resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.

3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.

4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influence.

The primary advantage of budgeting on a cost basis to both management and the Congress is that total resources to be used (on hand, on order and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures, and costs in those many operations primarily concerned with personal services. On the other hand, dollarwise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets. Major procurement, construction, and research and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

It should be noted that agency budgets can be formulated and administred on a cost basis under present practices of stating appropriation authorizations on an obligation basis and this is currently being done in some cases. The cost presentation is confined to the justification material in the greater number of such instances. However, the impetus to furnish cost data to the Congress would be greatly enhanced by teaming up the cost based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 of the Hoover Commission Report on Budget and Accounting. This would provide the best opportunity for improved correlation of prgraming, budgeting and accounting. We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis for the reasons stated below.

Accrued expenditure appropriations. Congressional control of costs and expenditures can only be achieved by the maximum utilization of many tools. Budgeting on a cost basis and placing the executive budget and congressional appropriations on the basis of annual accrued expenditures can be made important tools for the Congress if effectively installed.

The basic need of the Congress is adequate factual data as a basis for decision making. The facts furnished to the Congress can be no better than those available to the management for its own purposes, that is, the needs of the two for financial and operating data, although differing as to extent of detail, are entirely compatible. It seems reasonable to conclude that the best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and (3) costs for both in terms of total resources consumed. With this point of departure the budget can then be assessed in terms of (a) costs to be incurred, (b) resources already available in terms of inventories, etc., plus carried over funds, and (c) new money or authority needed. The essential difference in this approach, which ties in with the recommendations for cost budgets and accrued expenditure appropriations, as contrasted with present practices based on appropriations stated in terms of obligation authority is the degree of emphasis which the latter places on new money rather than total resources to be consumed and the extent of resources already available.

In the operations concerned primarily with salaries and travel expense the time relationship between the creation of an obligation and an expenditure is relatively short. In such circumstances, resources available other than new money are ordinarily of no great significance and there is ordinarily a rather direct correlation between obligations, expenditures and costs. These are the operations which represent the larger group in terms of numbers but represent the less significant portion of the budget from a dollar standpoint. In the area of operations where long lead time is characteristic such as, major procurement, construction, and research and development, which represent the greater dollar portion of the budget, obligation and expenditure data have their greatest limitations for both Congress and management.

The advantages of placing appropriations on an accrued expenditure basis are both tangible and intangible. The annual budget surplus or deficit is determined on the basis of expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress a much

greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carryover balances now available for expenditure at the discretion of the executive agencies. The present situation concerning available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

On the intangible side, it has often been pointed out that there is, perhaps, an unavoidable implication that funds which have not been obligated are either not needed or are available in lieu of new money. This, of course, is a fallacious assumption when total authority is granted in a lump sum initially for activities involving long leadtime such as ship construction. Nevertheless, attention may well be diverted from the question of accomplishments at a minimum cost over the period of the program to the one of almost sole emphasis on the amount of new money being requested. In the past, it has sometimes been said that expenditures are the inevitable result of granting obligation authority with the attendant implication that once having granted obligation authority all opportunity for subsequent adjustment is lost. An examination of present day practices in the long lead-time area (procurement, construction and research and development) demonstrates the obvious fallacy of this reasoning as evidenced by the extensive reprograming, multitudinous changes in engineering plans and specifications during the period of production of many items and other similar factors. Because of these inherent factors in the operations involved, cost budgets, teamed with appropriations on an accrued expenditure basis, would require a type of continuing budget presentation that would bring out the adequacy of management planning or the lack of it and give the Congress an opportunity to have a voice in setting the level of operations from year to year.

It is inherent in the recommendations under discussion that congressional authority be granted for the advance planning which necessarily precedes the phase of operations covered in an annual accrued expenditure budget. In the past, this authority has been termed contract authorizations but it is a significant fact that heretofore both contract authorizations and subsequent appropriations were stated in terms of obligational authority whereas under the recommendations herein being considered only the initial authorization would be stated in terms of the broad and difficult to apply concept of obligations whereas annual authority could be stated much more definitely in terms of accrued expenditures because of the time factor. It is essential that the initial authority which may cover a forward period, sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and authorizations are practical when stated in terms of accrued expenditures. Thus, the current recommendations are not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

Section 1 (c). The proposed section 218 of the Budget and Accounting Act, 1921, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involve management decisions affecting that Bureau. We believe these are matters which can best be determined by the Bureau and the Congress and, accordingly, we offer no specific views in the matter.

Section 2 (a). Our comments above on the proposed sections 216 (c) and (d) are equally applicable to this section 2 (a). We, therefore, endorse the objective to obtain consistency in organizational structure, budget classifications, and accounting systems within each executive agency.

Section 2 (b). We endorse this amendment to section 113 of the Budget and Accounting Procedures Act of 1950. The maintenance of accounts on an accrual basis is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill. Experience under the joint accounting improvement program clearly indicates that the accrual basis, when applied to significant items, is a major factor in providing better control over resources and liabilities and is an essential element in obtaining adequate cost data. Our statement of accounting principles provides for the appropriate use of the accrual basis. We also believe that adequate monetary property accounting records, as an integral part of accounting systems, are essential to several other proposed amendments such as accrual accounting, cost budgeting, etc., as well as the spe-

cific advantages to management which will result from adequate financial accounting for property.

Section 2 (c). The proposed section 120 of the Budget and Accounting Procedures Act of 1950 would establish a Staff Office of Accounting in the Bureau of the Budget. The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. The Budget and Accounting Procedures Act of 1950 recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget and the Comptroller General, for making continuing improvements in the financial management of Federal Government activities.

In its accounting and reporting provisions the statute clearly places responsibility upon the Comptroller General for principles, standards, and related requirements; directs the General Accounting Office to cooperate with the executive agencies in the development of their accounting systems and to approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards, and related requirements prescribed by him; and places upon the General Accounting Office the responsibility for the review of accounting systems of the executive agencies. As recognized in the report of the Hoover Commission on Budget and Accounting, the Comptroller General has equipped himself to carry out these responsibilities through the exercise of his accounting system function. Particular stress in the report is laid upon the excellent cooperation developed between the General Accounting Office and the executive agencies. No diminution or change in this cooperative working relationship between the General Accounting Office and the executive agencies is contemplated, no do we presume that any change is intended or implied by the recommendations under discussion.

Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950 of establishing and maintaining adequate systems of accounting and internal control in conformity with the principles, standards, and related requirements prescribed by the Comptroller General as referred to therein. It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of agency management to be successful. Added emphasis on getting the job done Government-wide could be very helpful in expediting progress if appropriately carried out. We do not believe, however, that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of Assistant Director for Accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

Such an effort need in no way be exercised in a manner inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States for the last several years. The essence of this arrangement is the recognition of the fact that each of the central agencies concerned, along with individual executive agencies, has a part to play in the total operation and that the desired results can only be achieved through joint efforts carried out with mutual respect for the responsibilities of each.

The new section 121 of the Budget and Accounting Procedures Act of 1950, also proposed by section 2 (c) of the bill, would provide for the appointment of a comptroller in each executive agency. We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of the proposed section 121. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies. In the final analysis, the responsibility for financial management must necessarily rest upon the head of each executive agency as a part of his total management responsibility. This has been made abundantly clear as a matter of statute in section 113 (a) of the Budget and Accounting Procedures Act of 1950, previously referred to above.

Section 3. The simplification of the allotment system for allocating funds is sound and most desirable. The existing unwarranted subdivision of funds is one of the greatest deterrents to improved financial management. We believe that administrators may be willing to forego the type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control. Better programing tied in with improved accounting through the development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Section 4. This section would require each executive agency to maintain a single account under each appropriation title or fund. We endorse the objective of this proposal but feel that it should be adopted for only appropriations or funds which are stated on an accrued expenditure basis. The Senate Committee on Government Operations is presently considering proposed legislation which would permit the consolidation of all prior year obligations under each annual appropriation into one account thereby requiring only two accounts—one current account and one for prior year obligations—under each annual appropriation title. We strongly favor the use of two accounts where such accounts are not stated on an accrued expenditure basis.

Section 5. This section would provide for a joint study by the Bureau of the Budget and the General Accounting Office relating to accounting and internal auditing. Much has been accomplished in these areas in the past by the General Accounting Office both on its own and under the joint accounting improvement program with the Bureau of the Budget and the Secretary of the Treasury. This work is carried on as a regular part of our comprehensive audit program and in the discharge of our accounting systems responsibilities. We expect to continue these studies and investigations. The results of these efforts are made available to the Congress through our regular reporting processes, but we would be pleased to cooperate with the Congress in any special effort having as its objective the improvement of accounting and internal auditing.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

SUBCOMMITTEE ON REORGANIZATION OF THE COMMITTEE ON GOVERNMENT OPERATIONS

Agency comments on S. 3199—Section by section

Section	Bureau of the Budget	General Accounting Office	Treasury Department
1 (a) Requires Director of the Bureau of the Budget to prepare comprehensive reports, other than fiscal reports, showing the financial results of activities of Government agencies.	Recommends that this section be deleted because it would duplicate reports prepared by the Secretary of the Treasury. Notes that joint accounting program is developing integrated system of financial reporting.	Leaves determination of necessity to Bureau of the Budget. Suggests such information be obtained through the regular budgetary processes and also be included in the President's annual budget.	States there is no real necessity or advantage to make the Bureau of the Budget instead of the Treasury Department the operating center for accounting and financial reporting.
1 (b) Requires all executive agencies to establish cost-based budgets. Requires internal quarterly performance reports to the heads of all agencies; annual agency reports on conduct of operations to the Bureau of the Budget to the President. Directs the preparation of appropriation requests on a cost basis. Requires that the annual budget show program costs, accomplishments, and performance.	Is in basic agreement with the objectives of the section, subject to certain qualifications set forth on p. 2 of the Bureau of the Budget statement, attached as appendix I. Points out that objectives sought by this section can be implemented without specific legislation as proposed in S. 3199.	Endorses cost-based budgets for fund allocation within agencies. Recommends amendment to provide for stating appropriations on accrued expenditure basis, as proposed in recommendation No. 7 of the Hoover Commission Report on Budget and Accounting. Doubts necessity for separate operational report to President on performance of agencies.	Is in general agreement with the objectives of section 1 (b).
1 (c) Authorizes the Director of the Bureau of the Budget to assign budget analysts to the principal executive departments to maintain a continuous review of budget preparation and administration.	Recommends against enactment because it would disturb Bureau of Budget's relations with agencies in developing executive budget.	No specific comment.	Doubts that the advantages would warrant added expense.
2 (a) Provides for greater consistency in agency structure, budget classifications, and accounting systems.	States legislation is unnecessary as objective is presently being met.	Endorses the objective of the section as an improvement in financial management of executive agencies.	Is in general agreement.
2 (b) Requires each executive agency to maintain an accrual accounting system, including appropriate monetary property accounts.	In agreement with objectives, but points out that accomplishment is a long-range program.	Endorses enactment as major factor in financial control.	In general agreement.
2 (c) Provides for establishment in the Bureau of the Budget of a Staff Office of Accounting, headed by an Assistant Director of Accounting, to develop an overall accounting system. Provides for the establishment in each executive agency of an Office of Comptroller to supervise accounting and auditing operations, as prescribed by the Assistant Director for Accounting.	Objects. Recommends deletion of section. States Bureau is presently expanding its accounting group to accomplish the objectives sought. Objects to Congress prescribing internal organization for financial management in executive agencies as counter to recognized principle of organizational flexibility. Also objects to Presidential appointment of Assistant Director of Bureau of the Budget, now appointed by the Director of the Bureau.	Does not believe that specific legislation is required in order for the Bureau of the Budget to accomplish the objectives of the section. Questions the desirability of establishing an Assistant Director for Accounting in the Bureau of the Budget by statute. Doubts wisdom of appointing Comptroller in each agency because of wide divergence in existing organizational pattern of the various agencies. Endorses the general emphasis placed upon improved financial management in each executive agency.	Objects to the creation of an Assistant Director for Accounting because it would overlap present statutory duties of the Comptroller General, and would infringe upon responsibilities of the respective executive agencies. Objects to statutory establishment of Comptroller in executive agencies because it would dilute the responsibility of the heads of agencies over their staffs. States if position of Comptroller necessary or desirable, Secretary of Treasury now has authority to establish it.

SUBCOMMITTEE ON REORGANIZATION OF THE COMMITTEE ON GOVERNMENT OPERATIONS—Continued

Agency comments on S. 3199—Section by section—Continued

Section	Bureau of the Budget	General Accounting Office	Treasury Department
3. Provides for simplification of the allotment system for allocating funds to operating units within executive agencies.	Has no objection to section, but declares effective progress is presently being made and implies can be effectuated through administrative action.	Endorses as a sound factor in improved financial control.	In general agreement.
4. Requires each agency to maintain a single account under each appropriation title or fund.	Approves but recommends enactment of S. 3362 which incorporates objectives of sec. 4, and provides that all prior-year accounts be kept separate from current appropriations to avoid augmentation of current year funds.	Endorses the objective, but believes it should be adopted for only appropriations or funds which are stated on an accrued expenditure basis. Strongly recommends two accounts where not stated on an accrued expenditure basis.	Treasury collaborated in drafting S. 3362 which incorporates sec. 4. Approves its objective.
5. Requires Comptroller General and Bureau of the Budget to conduct a joint study to eliminate duplications in the Government's accounting procedures.	Opposes enactment of section. States joint accounting program is accomplishing objectives.	Points out objectives are now being accomplished by GAO, Bureau of the Budget, and Treasury through joint accounting program.	Does not believe additional studies necessary.

Source: Miles Scull, Jr., Subcommittee on Reorganization, professional staff member.

The first witness this morning will be Mr. William F. Finan, Assistant Director for Management and Organization of the Bureau of the Budget.

Mr. Finan, I understand, is accompanied by Mr. William J. Armstrong, Chief of the Accounting Group, of the Office of Management and Organization of the Bureau of the Budget.

Senator KENNEDY. Would you care to proceed, Mr. Finan?

STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR MANAGEMENT AND ORGANIZATION, ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING GROUP, BUREAU OF THE BUDGET

Mr. FINAN. Mr. Chairman, on March 16, the Director of the Bureau of the Budget reported to your subcommittee rather extensively on S. 3362. In fact, in so much detail that we felt that it would be unnecessary and redundant for me to have a prepared written statement on this bill.

If you desire I will be glad to read the Director's comments on this bill into the record, or if the members of the subcommittee have had an ample opportunity to review his comments, we can confine our testimony to the answering of questions. (See p. 29 for letter from Director of the Bureau of the Budget, dated March 16, 1956.)

Senator KENNEDY. Perhaps it would be possible for you to summarize the recommendations.

Mr. FINAN. In brief, Mr. Chairman, at the present time accounts payable relating to obligations incurred under appropriations which expired for obligation purposes more than 2 years earlier are examined both by the agency concerned and by the General Accounting Office before payment is made.

The bill would authorize the Comptroller General to prescribe by regulation the conditions under which such payments may be made, without prior review by the General Accounting Office. This arrangement would produce savings by eliminating the duplicate review that is presently involved.

We also believe that it would create a situation in which payments could be made more promptly.

Also, at the present, the entire balance of each appropriation, both the obligated and the unobligated portions, are now carried on the accounts of the agencies for 2 years after the appropriation expires for obligation purposes. Under the proposed bill the unobligated balances remaining at the close of each fiscal year would be withdrawn from expired appropriations within 3 months after the close of the fiscal year in question, thus reducing the carryover of unexpended balances.

Individual appropriation accounts are now kept by the agencies on a formal basis for 2 years after the appropriations expire for obligation purposes, and thereafter for at least 8 more years on a memorandum basis. Additionally, after 2 years the General Accounting Office maintains the individual appropriation accounts in order to see that there are available appropriation balances before claims are certified for payment.

The proposed bill would bring about a very large reduction in the number of accounts to be maintained, both by the individual operating agency, and by the General Accounting Office. Under the provisions of the bill the obligated balances of expired accounts for prior years for the same general purposes would be merged, so that usually each current year appropriation account would have a single counterpart for prior year items. For the General Accounting Office alone it is estimated that about 35,000 accounts could be eliminated under the provisions of this bill.

Also, at present payments made from appropriations which have expired for obligation purposes for more than 2 years are charged as expenditures to the certified claims account maintained by the Treasury Department. One of the results of this arrangement is that such expenditures are reported as expenditures of the Treasury Department, although the benefits were received by other agencies. Thus, several hundred millions of dollars are budgeted and reported as the cost of the function of general Government when actually in large part this amount is for major national security and other functions. The proposed bill would permit the correction of this situation. Expenditures would be recorded and reported by the individual agencies and for the functions which received the benefits.

Finally, the bill provides that the Comptroller General shall in connection with his audit responsibilities make an appraisal of the unliquidated obligations. This arrangement emphasizes the importance of the independent review by the Comptroller General in order to verify the accuracy of agency accounts.

I think that summarizes about as briefly as possible, Mr. Chairman, the effect that this bill would have on the situation that exists at present.

Senator KENNEDY. Senator Cotton, do you have any questions to ask?

Senator COTTON. No questions.

Senator KENNEDY. Mr. Finan, perhaps you could explain simply for the benefit of the subcommittee exactly how the procedure is handled now.

As I understand, these balances are kept for a period of 2 years to liquidate any bills that may come in; is that correct?

Mr. FINAN. That is correct, sir.

Senator KENNEDY. And any payment you make after the fiscal year during this period must be cleared by the General Accounting Office; is that correct?

Mr. FINAN. It is, after 2 years.

Senator KENNEDY. After 2 years?

Mr. FINAN. After 2 years have expired; yes, sir.

Senator KENNEDY. Out of these moneys that you carry over, must those claims be cleared by the GAO?

Mr. FINAN. Yes, sir.

Senator KENNEDY. Under the present arrangement, must the amount be put in the supplemental appropriation to take care of the bill?

Mr. FINAN. No, it is not handled that way at present. This is money that has been appropriated, and was obligated during the period permissible by law, but for one reason or another there is a timelag, subsequent to that.

Let us say that an item has been purchased; there may be a considerable period up to the time where the item is delivered and the seller actually bills the Government. If that period of time exceeds 2 years, then you have a claim which must be handled by the GAO, even though for all other purposes it may have been a routine transaction and that delay may have been a perfectly proper and normal delay.

Senator KENNEDY. Where does the GAO get the money—does it have to get it in supplemental appropriations?

Mr. FINAN. It comes out of what is known, Mr. Chairman, as the certified claims account, which is maintained by the Treasury Department.

If you would like to get into the real technical details, so to speak, of this, and it is quite a technical matter, I would like to ask Mr. Armstrong, who is the head of our accounting group, and who has been working on this matter quite intensively now over a considerable period of time, to discuss it.

Senator KENNEDY. Perhaps it would be helpful if you would give us the present procedure, and then the procedure as it would be under the bill.

Mr. ARMSTRONG. On annual appropriations, 2 years after the year for which the appropriation is made, the balances of those appropriations are transferred to the certified claims account of the Treasury Department.

When bills come into an agency after those balances are transferred, the agency examines the bill and determines whether it is a proper payment. But the agency cannot pay it at that time. The bill has to be transmitted to the GAO, where another review is made. If GAO finds it proper, they certify it for payment. Such payment is made from the appropriation maintained by the Treasury Department, the certified claims account.

So the payment really shows up as an expenditure of the Treasury Department, whereas the goods may have been received by some other department.

Senator KENNEDY. Under the arrangement proposed in this bill, the agency itself would be able to make the expenditure without getting the clearance.

Mr. ARMSTRONG. Yes, it would. Under this bill the arrangement would be this: Within 90 days after the end of the fiscal year for which the appropriation is made, the balance of the appropriation as of June 30, would be divided two ways: That portion which was not obligated——

Senator KENNEDY. After September 30; would it not be?

Mr. ARMSTRONG. It is as of June 30—the condition on June 30—but the transfer has to be made by September 30. The unobligated portion of the appropriation would be withdrawn. In other words, the carryover would be reduced by that amount, because there were no obligations incurred against that balance.

The remainder would be put into one account combining that year with the prior years. Therefore, there would be one consolidated account for the same general purposes for prior years under each title of appropriation. And that would remain available for the payment of bills by the agency itself.

If a bill came in 2, 3, or 4 years after an appropriation expired for obligation purposes, the agency could pay it, provided that it is a proper claim.

The Comptroller General will, by regulation, prescribe the conditions under which agencies may pay claims. If there are questions of law involved or if a claim is otherwise questionable, he may still require it to come to the GAO for settlement, but the great majority of claims can be paid directly by the agencies themselves.

Also, this arrangement will enable expenditures to be charged against the agencies which incurred the obligations rather than having them recorded as expenditures of the Treasury Department.

Senator KENNEDY. There are about 38,000 of these claims yearly; is that correct?

Mr. ARMSTRONG. The General Accounting Office, I think, has information as to the number, but I have some information here as to the transactions within the certified claims account over the past 6 years.

This certified claims account was set up in 1949. In 1955, there were payments out of that account that amounted to $119 million; in 1954, $192 million; in 1953, $110 million, and so forth. Since 1950 there has been a total of $570 million in payments made from that account. You might be interested, too, in the amounts of the balances of appropriations that were transferred into that account. From 1950 to 1955, they amounted to $5,637 million.

This bill withdraws immediately within 90 days after the end of the year the unobligated portion of the appropriations. We hear a lot of talk about these large carryover balances. This will reduce those by taking off immediately the portion that is not obligated and leaving an amount equal to the portion that is obligated to pay outstanding bills.

Senator COTTON. Is there any danger or possibility that the fact that this has to be done will cause agencies to make hasty commitments prior to the end of the year in order to make use of their appropriations and not have it revert?

Mr. ARMSTRONG. Well, I do not know that it would add in that respect. The same situation exists today where they cannot further obligate the balances of annual appropriations after the year ends.

Senator COTTON. They could do it, anyway?

Mr. ARMSTRONG. I do not think this would change that.

Mr. FINAN. This would make no difference, Senator, in the availability of this money for obligation after the end of the fiscal year.

At the present time the money ceases to be available for obligation at the end of the fiscal year and that situation would remain unchanged under the terms of this bill.

Senator KENNEDY. If it would no longer be necessary for the agency to present these claims, it seems to me it might make them less anxious to do what Senator Cotton was concerned about, that is to attempt to make hasty judgments because it would not pass out of their control into this certified claim fund.

And the only way they could get it back would be through the special claims that have to be approved by the special agencies. Is that correct or not?

Mr. FINAN. I do not believe it would make any difference in that respect, either, Mr. Chairman. The issue involved here really in-

volves the expenditure of money to which the Government is already committed.

This issue of obligation authority actually, as you know, runs to the authority of an agency to commit the Government to spend.

This bill has no direct effect one way or the other, in either case the authority to commit the Government to spend against a given appropriation, to obligate the money, expires at the close of the fiscal year in question.

Senator COTTON. In other words, this is a mere matter of bookkeeping rather than any change in policy?

Mr. FINAN. I think that is a fair statement.

Mr. ARMSTRONG. Yes, I think it would be fair to say that it is a simplification of procedures. It eliminates one audit review, it consolidates the number of accounts, and it gets expenditures recorded where they were actually incurred.

In other words, it is largely a procedural simplification measure.

Senator KENNEDY. Does this proposal decrease the number of supplemental or deficiency appropriation requests or will it have any affect on them?

Mr. FINAN. It should not have any effect on it, Mr. Chairman. There is an outside possibility that under very unusual circumstances it might actually increase the number of supplemental appropriations to a very slight degree.

Without experience it would be very difficult to estimate that with any degree of precision.

It is our judgment that it would really have no significant effect on it. But because one of the provisions of this bill is that in the event it is necessary to pay a bill, so to speak, which turns out unexpectedly to be larger than was anticipated, and which would exceed the amount of expenditure authority available in this liquidation account, you could make up the difference by transfer from the current year appropriation.

Under those circumstances, under extreme and, as far as we can see, most unusual conditions, it might be necessary to make a transfer out of a current account of sufficient size as to impair the agency's ability to carry out its current year's program, in which event they would have a basis for requesting a supplemental appropriation.

Senator KENNEDY. You are satisfied—the Administration is satisfied that this bill will be a worthy improvement in the present procedures, is that correct?

Mr. FINAN. We feel very strongly that it will, yes, sir.

Senator KENNEDY. I understand this bill has been coordinated by the Bureau of the Budget with all of the agencies. Does that include the Department of Defense?

Mr. FINAN. Yes, sir. I understand a Department of Defense witness will be here this morning to express certain reservations about the provisions of this bill insofar as they apply to the Department of Defense.

Senator KENNEDY. Are there any more questions?

Mr. SHRIVER. Yes, Mr. Chairman, if I may ask a question, I would like some clarification as to the meaning of the language shown at the top of page 4 of the bill and the examination of this account contem-

plated by the provisions of subsection (c), beginning on line 11, page 5, of the bill.

Would you explain to the subcommittee the relationship between those two references in the bill; as to whether or not the examination will be made of the consolidated account and the annual account balances, or merely of the operations of the new account to be established under this bill.

Mr. FINAN. Your first reference starts on the bottom of page 3?

Mr. SHRIVER. No, it starts on the top of page 4, section 3 (a).

Mr. FINAN. Do you want to comment on this?

Mr. SHRIVER. Yes, it says that the accounts established pursuant to this act shall be reviewed periodically but at least once each fiscal year, by each agency concerned.

Is that intended to be an examination of each account or the consolidated appropriation account?

Mr. ARMSTRONG. That would be an examination of the unliquidated obligations under the consolidated account for the prior years, and for the current year those obligations outstanding on June 30 which would by September 30 go into the consolidated account for each title of appropriation.

Mr. SHRIVER. The examination would be made by each agency?

Mr. FINAN. That is correct.

Mr. SHRIVER. Now, the examination on page 5 would be made by the GAO, is that true?

Mr. FINAN. Yes, correct.

Mr. SHRIVER. Thank you, Mr. Finan.

Mr. ARMSTRONG. You were also speaking, with reference to the top of page 4, of that provision which says that this act does not take away from the GAO any of its present authority to render decisions in connection with any matters pertaining to claims. In other words, if an agency wants to ask the GAO for a decision on a claim it shall continue to do so, the point being that nothing in this act takes away from the General Accounting Office any of the responsibility that it now has in connection with the settling of accounts and claims.

Mr. SHRIVER. Now, would you explain to the subcommittee the method of handling overages and shortages in the estimated obligations; that is, how you propose to handle the adjustments for over- and under-estimated obligations?

Mr. FINAN. I am not quite sure that I understand that question, Mr. Shriver, as it relates to this bill.

Mr. SHRIVER. I had in mind a letter or analysis of the bill from the Bureau of the Budget which shows that where you have estimated an obligation which is later determined to be in excess of the amount required, and in other instances where you under-estimated the amount required, the overages and shortages, would be set off against each other.

The analysis which I had in mind follows:

PRESENT PROCEDURES	PROPOSED PROCEDURES
Where the payment of old obligations exceeds the amount previously recorded for the obligation on an estimated basis, action may be required to make a deficiency appropriation if there is an insufficient balance unobligated in the particular year's account involved. Sometimes deficiency appropriations are necessary for accounts which expired 5 or 6 years earlier.	No deficiency appropriation would be required for these purposes. Overruns in the liquidation of obligations of 1 older year could be met from savings and liquidations of obligations from some other year. Where obligations overrun the balance in the prior year's account combined, a transfer would be made from the current year appropriation, and any additional appropriations needed would be made to the current year account.

Mr. FINAN. That is correct. That is our assumption by reason of this consolidation into one account.

Mr. SHRIVER. Very well. Thank you.

Senator KENNEDY. Thank you very much, Mr. Finan and Mr. Armstrong. We appreciate your coming here this morning. I will place the letter from the Director of the Bureau of the Budget in the record at this point.

(The letter is as follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., March 16, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: In response to conversations which staff of the Bureau have had with staff of your committee, we are submitting views and comments on S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

This bill would substantially carry out the objectives of recommendations Nos. 17 and 18 of the Commission on Organization of the Executive Branch of the Government in its report on budget and accounting.

We heartily endorse the objectives of the bill which would bring about improvements and simplifications in accounting and in the procedure for the payment of obligations against expired appropriations. More specifically, some of the major benefits which would result from the bill are as follows:

1. At the present time accounts payable relating to obligations incurred under appropriations which expired for obligation purposes more than 2 years earlier are examined both by the agency concerned and by the General Accounting Office before payment is made. The bill would authorize the Comptroller General to prescribe by regulations the conditions under which such payments may be made without prior review by the General Accounting Office. This would bring about savings by eliminating the duplicate review. Also payments could be made more promptly.

2. The entire balance of each appropriation (both the obligated and the unobligated portion) is now carried in the accounts of the agencies for 2 years after the appropriation expires for obligation purposes. Under the bill the unobligated balances remaining at the close of each fiscal year would be withdrawn from expired appropriations within 3 months thereafter, thus reducing the carryover of unexpended balances.

3. Individual appropriation accounts are now kept by the agencies on a formal basis for 2 years after the appropriations expire for obligation purposes and thereafter for at least 8 more years on a memorandum basis. In addition, after 2 years, the General Accounting Office maintains the individual appropriation accounts in order to see that there are available appropriation balances before claims are certified for payment. This bill would bring about a large reduction in the number of accounts to be maintained both by the agencies and by the General Accounting Office. Under its provisions the obligated balances of expired accounts for prior years

for the same general purposes would be merged so that usually each current year appropriation account would have a counterpart for prior year items. For the General Accounting Office alone, it is estimated that about 35,000 accounts could be eliminated.

4. Under present practices payments made from appropriations which have expired for obligation purposes for more than 2 years are charged as expenditures to the certified claims account maintained by the Treasury Department. The result is that such expenditures are reported as expenditures of the Treasury Department although the benefits were received by other agencies. Thus several hundred millions of dollars are budgeted and reported as a cost of the function of general Government when actually a large part of this amount is for major national security and other functions. The bill would correct this situation. Expenditures would be recorded and reported by the individual agencies and for the functions which received the benefits.

5. The bill provides that the Comptroller General shall, in connection with his audit responsibilities, make an appraisal of the unliquidated obligations. This emphasizes the importance of the independent review by the Comptroller General in order to verify the accuracy of the accounts.

In the interests of clarifying and otherwise improving the bill, we would suggest consideration of the following amendments:

1. Delete the words "except as otherwise provided by law" on page 1, line 3, and in lieu thereof add the following new paragraph to the repeals on page 7, section 7:

"(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957." At the present time there are some cases where existing provisions of substantive law continue the availability of appropriations for expenditure purposes for periods longer than the normal 2-year period after the period for which the appropriations are made. It is desirable, therefore, to bring such appropriations under the provisions of this bill in order to provide the authority to make payments subsequently. An example is the provision for certain research appropriations in the Agricultural Marketing Act of 1946. The language, which we suggest for deletion above, would exempt such cases from the provisions of the bill whereas the substitute would embrace such cases within the terms of the bill by repealing the special provisions providing extended availability for expenditure. Like the provision repealing the general authorization for extended availability for expenditure (subsec. (b) of sec. 7), the suggested language would not be effective until June 30, 1957. However, the suggested language would not repeal provisions for extended expenditure availability contained in 1956 or 1957 appropriation acts, but would leave the matter of extended expenditure availability for these appropriations to be considered individually in acting on 1958 budget estimates and appropriation acts.

2. Delete the word "activity" on page 1, line 8, and substitute "agency or subdivision thereof." We believe the substitute would clarify the meaning.

3. On page 2, lines 22 and 23, delete the words "as of the close of the fiscal year" and insert the same words after the word "account" on page 2, line 20. This change would clarify the point that the reviews of the accounting records required by section 1311 and the related reports pertain only to the obligated balance as of the close of the fiscal year.

4. Delete the words "required pursuant to subsection (a)" on page 3, lines 10 and 11, and substitute "made pursuant to subsections (a) and (b)." This would make it clear that September 30 is intended as the final closing date for action to be taken under section 1 (d).

5. Delete the words "activity responsible for the liquidation of the obligations chargeable to such accounts" on page 4, lines 7 and 8, and substitute "agency concerned." We believe "agency" would be more meaningful than "activity" and that the remainder of the clause is not necessary.

6. Delete the word "activity" on page 6, line 9, and substitute "agency or subdivision thereof" for the reason noted in 2 above.

7. Delete the words "or will not be undertaken or continued" on page 6, lines 16 and 17. These words might carry the implication that the heads of the agency concerned could determine whether or not to carry out work specifically authorized by the Congress.

8. On page 7, add the following new section:

"SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized."

This new section provides that the Congress may consider each year the desirability of exempting any appropriation or appropriations from the provisions of this bill and so provide in appropriation acts without such provisions being subject to a point of order.

The amendments suggested above have been discussed with staff of the Treasury Department and the General Accounting Office, who concur therein. With these amendments, we strongly recommend the enactment of S. 3362, which would improve fiscal operations and bring about economies.

Sincerely yours,

PERCIVAL BRUNDAGE, *Acting Director.*

Mr. FINAN. Thank you.

Senator KENNEDY. Mr. W. J. McNeil, Assistant Secretary of the Department of Defense, is our next witness.

We are glad to have you here, Mr. McNeil. Will you identify the gentlemen with you.

Mr. MCNEIL. Mr. Howard Bordner, who is the deputy comptroller for accounting policy, in the Department of Defense, and Mr. Maurice Lanman, who is assistant general counsel, assigned to fiscal matters.

Senator KENNEDY. Very well. You may proceed.

STATEMENT OF HON. W. J. McNEIL, ASSISTANT SECRETARY (COMPTROLLER); ACCOMPANIED BY MAURICE H. LANMAN, JR., ASSISTANT GENERAL COUNSEL (FISCAL MATTERS), AND HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING POLICY, DEPARTMENT OF DEFENSE

Mr. MCNEIL. I have a short statement, Mr. Chairman. And a moment ago, in answer to a question, I believe Mr. Finan mentioned that we had certain reservations and I might touch on those also, if it pleases the subcommittee.

Senator KENNEDY. Fine.

Mr. MCNEIL. I appreciate the opportunity to appear before you this morning to discuss certain legislative proposals to implement the various Hoover Commission recommendations. It is my understanding that the first bill under consideration is to be S. 3362. This bill is apparently intended to implement two of the Hoover Commission recommendations, Nos. 17 and 18.

Recommendation No. 18, which would provide for the agencies having jurisdiction over the funds to settle all claims arising under appropriations after they have expired for obligation rather than to have such claims settled upon certificates of the GAO is concurred in by the Department of Defense completely.

It is our belief that no useful purpose has been served in having agencies receive claims, develop them, determine the amounts due, and submit them to the Comptroller General for a practically pro forma consideration and then have them returned to the agency and paid by the agency's disbursing officers. Therefore, we believe that this recommendation will obviate currently unnecessary operation in the settlement of claims from the certified claims account.

With respect to the other aspect of S. 3362, which is apparently an attempt to implement recommendation No. 17 that all obligations be liquidated from a single account, we should like to point out that the bill moves only part of the distance in the direction of this worthwhile objective.

We would hope that the recommendation will be eventually literally implemented but only after your subcommittee has thoroughly considered many of the more important aspects of the Commission's recommendations represented in some of the legislation upon which you plan to take testimony.

You will note that the bill provides for transfer on September 30 of each year of only those amounts certified as having been obligated under section 1311 of the Supplemental Appropriation Act as of any June 30. This latter section was a recent enactment into law of statutory definition of obligations which the Department of Defense believes was a long overdue measure necessary to correct the erroneous as well as the unsound practices with respect to recording and reporting obligations that had been going on in the executive departments for decades.

The Department considers this section as a landmark in progress toward a uniform basis for accounting and reporting for appropriated funds. After some initial delay in preparing and securing the approval of the accounting officers for our regulations under this statute, we are now in the process of applying it worldwide to all activities of the Department of Defense.

As I am sure you will understand, corrective measures of this scope, when applied to the complexities of accounting for and reporting on the obligations and expenditures within the Department of Defense, running in excess of $30 billion, cannot succeed overnight.

We have been working diligently since the enactment of the statute and believe that within the next year or two the educative process and our job in this area will be completed.

Our problem in carrying out the provisions of 3362—that is, other than the certified claims—arises from the fact that there are very large adjustments of unliquidated obligations in the Department of Defense after the end of the fiscal year. For instance, adjustments which may arise from the maturing of contingent liabilities arising out of all types of contracts including variation in quantity clauses, price redetermination, and escalation clauses, as well as in the incentive and cost reimbursement type contracts.

In addition, other significant factors require adjustments in our obligations which are often based on the best estimates available, in accordance with regulations issued under section 1311, approved by the GAO.

We have generally resolved most of these problems by the utilization of no-year appropriations in the Department of Defense but to the extent that the problems exist in annual appropriations, to which this bill is largely applicable, we recommend that serious consideration be given to clarifying the provisions of the bill with respect to the limitations on the amounts to be carried over and the manner in which these adjustments are to be effected in Department of Defense appropriations after the close of the fiscal year and prior to the transfers contemplated to be made on September 30.

As I previously stated, it is our hope that recommendation No. 17 will be fully and literally implemented but it is our view that it would represent only one minor aspect in the implementation of the many more sweeping recommendations of the Commission as included in the more comprehensive bill, S. 3199, and should more properly be considered in the light of conclusions reached on that legislation. It is understood your subcommittee is also planning to discuss that bill.

In conclusion, I should like to state that we feel that the implementation of recommendation No. 18 would occasion no problems in the Department of Defense and we would concur in the immediate enactment of provisions to accomplish it.

We feel there should be some further consideration of the problems of the amounts carried over as of any June 30 which takes into account the ability to revise obligations as certified on June 30 under section 1311, which can be justified.

That is an adjustment that can be proven to be necessary, as well as taking into account any obligations which do not require the full amount in liquidation.

We feel that even though the amounts carried over might some years be about the same amount, but no one knows. To the extent that amounts might have to be paid from future budgets it encourages something we are trying desperately, in the Department of Defense, to avoid, that is, the padding or adding of too many contingencies to future budget requests. We are bound to have them if we are to provide for subsequent proper adjustments in the value of obligations.

I think there was a question a few minutes ago, would this require or encourage additional supplemental appropriations. I think the answer—at least my thought is that the answer must be "Yes." Whether it will be great in number, I do not know, but certainly, it could not operate to require fewer. It must require more. I do not know who can tell you how many more.

Either that, or you must provide in each new budget, each new budget request, some amount to take care of claims or of increased obligations, which would be legal, proper, and must be paid.

There would be two courses of action: One is a special budget account could be set up in each new annual appropriation to take care of those contingencies and recognize them. The customary way of taking care of such things in the past, which I hope we do not get into again, is to pad or adjust a little bit as a contingency in each of the several hundred different budget activity accounts that we have in the Department of Defense, because if a program manager ever had to pick up one of these adjustments in any year, he would protect himself the next 4 or 5 years so he would not have to come for a supplemental, or did not have to adjust his program all the way out through the field to take care of it.

We are bound to ask for money to take care of it in one way or another.

My own view is that, if in the consideration of the second part of this legislation, or what I call the second part, leaving aside the claims, some clear-cut provision could be made to provide for the adjustment of obligations, assuming they could be justified you would have a much better piece of legislation.

Also, I would urge consideration of trying to go the whole way in carrying over the accounts into one new account such as recommended by the Hoover Commission, although this bill goes part way.

Senator KENNEDY. As I understand it, you are in favor of this bill, but you do not feel that it goes far enough. You are in favor of it as far as it goes?

Mr. MCNEIL. On the certified claims?

Senator KENNEDY. On the certified claims.

Mr. MCNEIL. But on the other part I really think it requires considerable thought here as to the effects; and some provision made for the adjustment of obligations as of the end of June 30 because we have escalation clauses in contracts outstanding.

These are legal obligations. We attempt under section 1311 to provide the best possible estimate. If it runs over, the obligation of the Government has not been decreased a particle.

When contracts are let for ammunition or anything, or spares, the quantity is specified. But frequently, the quantities may vary in the manufacturing process by, say, 5 or 10 percent. To post the account we estimate, but there can be an overrun. If there is an overrun, I think it is a very proper adjustment in the obligation of June 30, if it can be justified and proven.

On cost reimbursement-type contracts of which there are still some under certain conditions, the estimate of the cost is the best we can make at the time. If, as in the case of ballistic missiles, frankly, where we do not know what some costs will be, we do have adjustments to get the same identical job done that was contemplated in the original contract.

We think that this should provide for adjustments of that type, assuming they can be justified with individual items.

Senator KENNEDY. Do you have any questions, Mr. Shriver?

Mr. SHRIVER. No; I have no questions at this time, Mr. Chairman.

Mr. MCNEIL. I wanted to add one thing, Mr. Chairman, I think that is necessary if we are to avoid one point that you brought up just after I stepped into the room.

We are having a lot of difficulty in applying the provisions of section 1311, although, I repeat, it is one of the best pieces of legislation that has come out in this field for a long time.

We would like to adhere rather carefully to what we consider very rigid criteria as to what is and what is not an obligation.

But the very minute we force people, in a sense, to be a little careless with it, we do not accomplish what the basic legislation was intended to do and what we are striving to accomplish in having very clean-cut criteria applied to what is or is not an obligation.

Senator KENNEDY. I did not want to get into S. 3199, particularly. Are you going to return tomorrow, or will you send some of your representatives here? We will have a hearing on S. 3199 then.

Mr. MCNEIL. I have to be out of town tomorrow, but there will be somebody here representing us.

Senator KENNEDY. What is your feeling with regard to the suggestion on budgeting contained on page 2 of S. 3199?

Mr. MCNEIL. That is a rather long subject, I think, sir, because as expressed here it appears rather simple. It is not quite that simple.

Next, it is my view that looking at it from a commerical accounting viewpoint some of the statements here would apply perfectly, but in

the Federal Government I think we want to use accruals, the accrual principle, but must adapt it to our operation and problem; otherwise, I think it is excellent principle.

However, primarily, I am speaking for the Department of Defense—the most important thing in managing the place is to know the cost of consumption. If you take the word "accruals" you would assume that it included depreciation and everything else.

We are at a loss to know what value would be achieved by attempting to apply the accrual principle in full, by depreciating a fighter aircraft or equipment of that type. It is an item that you have to have. You know its cost and its value. That certainly should be known.

But on those major items you deal in the combat capability and the quantity. And as to depreciation, I do not know what we would do with it if we had it.

As to the cost of consumption of material used in housekeeping, maintenance, and operation, it is vital to us to know what it is.

So if accruals means cost of consumption in the day-to-day operations of a post, camp, station equipment we agree completely that we ought to do it.

But this is largely written from a commercial accountant's viewpoint and does not take into account one basic difference which I think has to be recognized in the Federal Government; and that is the obligations of the Government in the future. This more or less subordinates that.

I think in the past years there has been too much emphasis on obligations and not enough on the day-to-day costs of consumption or operation. I think we have to bring those two things into balance in the years to come.

But I do not think we dare subordinate obligations, particularly when we are thinking about the long-range future procurement which to us takes almost half of the resources you give us—we must dwell on that subject, because the ordinary accrual principle just does not apply as we think of it in business.

Senator KENNEDY. The Defense Department is really the major agency involved because of the amount of money expended. Your viewpoint would be of great help. Tomorrow could your representative give the subcommittee a memorandum on this, section by section. If we have to rewrite the bill we can eliminate or change the language. I would like to have as thorough an analysis of it as possible and any suggestion that you might have. Your testimony would be very helpful. (This information was presented to the subcommittee at a subsequent hearing, March 27, 1956, see p. 211).

Mr. MCNEIL. Thank you, sir. I did not mean to mix up your hearing this morning on the one bill, except what I would call the second part of the bill you are considering today seems to me to be an integral part of the whole appropriation and accounting process. It is to a degree separable from the settlement of claims. That is what I had in mind by pointing that issue up.

Senator KENNEDY. That is fine. I am glad you brought it up because the bill introduced by Senator Payne goes much further than the bill we are considering this morning. I think your analysis of it tomorrow, or your representative's analysis, will be very helpful.

Do any of the gentlemen with you, Mr. McNeil, care to comment?

Mr. McNeil. Do you have anything to add, Mr. Bordner, Mr. Lanman?

Mr. Bordner. No.

Mr. Lanman. No.

Senator Kennedy. If not, thank you very much.

Mr. McNeil. Thank you.

Senator Kennedy. Mr. Gilbert L. Cake, of the Treasury Department, is the next witness.

Do you have a prepared statement, Mr. Cake?

STATEMENT OF GILBERT L. CAKE, ASSOCIATE COMMISSIONER, BUREAU OF ACCOUNTS, DEPARTMENT OF THE TREASURY

Mr. Cake. Mr. Chairman, I have a short statement that should not take much over 5 minutes, if the subcommittee will bear with me.

Mr. Chairman and members of the subcommittee:

I am glad to testify, on behalf of the Treasury Department, concerning S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

This bill contemplates two major changes with respect to the manner in which claims would be paid and accounted for after the related appropriations have ceased, by limitation of law, to be available any longer for making contracts or otherwise financially obligating the Government.

Under the present law, the General Accounting Office reviews and settles claims against lapsed appropriations and, in that connection, is keeping more than 30,000 accounts for old balances as a means of insuring that no claim is paid that would create a deficiency involving a lapsed appropriation.

First, however, the administrative agencies concerned do the work of ascertaining the facts and documenting the claims—including recommendations thereon—to be reviewed and settled in the General Accounting Office.

Under the bill, this work by the administrative agencies would still have to be done but the claims, except those involving doubtful questions of law or fact, would be certified as correct for payment by authorized disbursing officers without first being referred to the General Accounting Office for approval. Of course, such administrative action would be subject to independent, postaudit review by the General Accounting Office.

Also under present law, Federal agencies geenrally must keep 3 separate accounts with respect to each appropriation title, namely, 1 account for the appropriation for the current fiscal year and 1 each for the expired appropriations for the 2 preceding years.

This is true of appropriations limited to a year or other periods of time, which, disregarding trust funds, are the great majority. After an appropriation has remained on the books of the Government for 2 fiscal years following that for which the appropriation is made, the entire balance, including the unobligated portion, lapses and is carried to a consolidated account for the payment of claims against all lapsed appropriations. As I previously mentioned, these claims, usually referred to as certified claims, are being submitted under present law to the General Accounting Office for approval before payment.

Under the bill, one-third of the appropriation accounts, and one-third of the innumerable allotment or other subaccounts related to such appropriation accounts, which are scattered among the different agencies of the Government, would be eliminated. Also, the more than 30,000 accounts kept by the General Accounting Office with respect to lapsed appropriations would be discontinued.

Only 2, instead of 3 accounts, would be kept with respect to each appropriation title, namely, 1 for the appropriation for the current fiscal year and the other for the purpose of liquidating claims involving old obligations against all appropriations for the same general purpose.

This would be accomplished each fiscal year by making, in the case of each appropriation title, a careful administrative review of the obligations outstanding against the appropriation account for the fiscal year just ended and then closing such account, within 90 days, by writing off the unused—that is, unobligated—part of the balance and transferring the remainder—that is, the obligated portion—to an account for the liquidation of old obligations.

As I have indicated, there would be one such account maintained for appropriations which were made for the same general purpose, and the account would be used for the liquidation of old obligations against such appropriations regardless of when the obligations were incurred in past years.

I have tried to give a general idea of the proposed changes in present practice without dealing with all of the procedural details.

The Treasury has been collaborating with the Bureau of the Budget, the General Accounting Office and the staff of your subcommittee, in the drafting of the proposed legislation.

With the amendments which the Bureau of the Budget proposes, the Treasury Department gives its full support to the enactment of S. 3362. This is because there are strong advantages to be gained in the way of:

(1) Reducing the expense of paying and accounting for claims against expired appropriations;

(2) Strengthening related audit;

(3) Improving accounting in two ways: by reducing the size of the carryover of unexpended balances as between fiscal years; and by treating payments of claims in the Federal Budget as expenditures of the administrative agencies concerned rather than as expenditures of the Treasury Department; and

(4) Expediting the payment of valid claims.

Mr. Chairman, in view of the reservations which the witness for the Department of Defense, Mr. McNeil, has made with regard to certain provisions of this bill, my testimony would be more complete if I should be permitted by the subcommittee to comment briefly on those from the standpoint of the Treasury Department.

Senator KENNEDY. Go right ahead.

Mr. CAKE. In the first place, I should like to emphasize that the Treasury Department is in full agreement with the Bureau of the Budget and the General Accounting Office on the desirability of the provisions of the bill as written.

From the standpoint of the Treasury Department's own operations, which are not inconsiderable, we foresee no serious difficulties of recordkeeping or control that would prevent compliance.

We are opposed to the idea of merging old obligations and old authority with new obligations and new authority as an accounting matter. We do not believe that congressional and executive control over the spending of public funds should be relaxed so far.

With respect to providing authority to make adjustments for possible miscalculations of unobligated balances, as I have said, the Treasury Department anticipates no difficutly with the bill as written. We are not, however, in a position to know or judge what the peculiar problems of the Department of Defense may be in the way of effective recordkeeping and control of appropriations and the need of lead time for installation of the new procedure.

Senator KENNEDY. Senator Cotton, any questions?

Senator COTTON. I have no questions.

Senator KENNEDY. Senator Symington?

Senator SYMINGTON. I have no questions.

Senator KENNEDY. Mr. Cake, would you care to comment further on the Department of Defense's views on the bill?

Mr. CAKE. From the standpoint of the Department of Defense?

Senator KENNEDY. Is there anything that you would care to add to what was said?

Mr. CAKE. Mr. Chairman, I just gave some views on that to the subcommittee at the close of my statement. I would be glad to repeat those, sir, if you care.

Senator SYMINGTON. Cannot you say it without repeating it?

Mr. CAKE. There are several points. I want to cover the same ground, of course.

As I previously said, the Treasury Department is in full agreement with the Bureau of the Budget and the General Accounting Office, on the desirability of the provisions of the bill as written.

From the standpoint of the Treasury Department's own operations, which are not inconsiderable, we can foresee no serious difficulty in recordkeeping or control that would prevent compliance.

We are opposed to the idea of merging old obligations and old authority with new obligations and new authority as an accounting matter.

Senator SYMINGTON. What do you mean by "old obligations"?

Mr. CAKE. I mean, Senator Symington, the obligations that were incurred against the appropriation that are no longer available for the purpose of obligations and yet have not been paid. They are contracts that have been made.

Senator SYMINGTON. Give us an illustration of that from the practical standpoint in the Defense Department, if you can pick one out, and see how it works.

Mr. CAKE. I would not be able to speak particularly for the Defense Department.

Senator SYMINGTON. Give us one from your Department then.

Mr. CAKE. In the case of the Treasury Department, we might have a contract for the delivery of goods that had been made legally—made before the appropriation had expired—but the obligation has not yet been paid because the delivery has not been made. Then the delivery is made and the payment is effected.

That is what I mean by merging old obligations, that were incurred under prior years.

Senator SYMINGTON. You are talking about money that expires at the end of the year, because you cannot have it in the next year?

Mr. CAKE. I am talking about the obligations that were incurred against the appropriation that expired, obligations which already exist.

Senator SYMINGTON. I just want to be sure that I understand you now. You say that you order some goods, is that right?

Mr. CAKE. That is right.

Senator SYMINGTON. Say you order fans for the Department of the Treasury.

Mr. CAKE. That is right.

Senator SYMINGTON. And when you get those goods you pay for them, is that right?

Mr. CAKE. They have not been paid for in this case.

Senator SYMINGTON. Why have they not been paid for?

Mr. CAKE. Because they had not been delivered before the appropriation expired, although the contract is binding.

Senator SYMINGTON. You are talking about money that expires?

Mr. CAKE. Yes, sir.

Senator SYMINGTON. Because the goods have not been delivered, is that right? That is what I wanted to get at.

Mr. CAKE. The funds for the payment of that particular contract, if it was legally incurred, have not really lapsed or expired for the purpose of expenditure.

Senator SYMINGTON. But under the law, if you do not pay for them in that fiscal year then the appropriation dies, your right to use the money dies, is that it?

Mr. CAKE. Not as far as the money needed to pay for those particular legal obligations that were incurred while the appropriation was alive.

Senator SYMINGTON. If the appropriation dies, then you have no more money to pay the bill, is that right?

Mr. CAKE. Oh, no, not under present law.

Senator SYMINGTON. Do you have the money to pay the bill?

Mr. CAKE. Yes—the portion of the balance of the appropriation which we call obligated, which is necessary for payment.

Senator SYMINGTON. You make a contract to buy a fan, you either do it with a purchase order on the Government or do it with a contract with the manufacturer.

Mr. CAKE. That is right.

Senator SYMINGTON. You have that money appropriated, is that right?

Mr. CAKE. That money is appropriated; yes, sir.

Senator SYMINGTON. Then at the end of the fiscal year, do you lose that money?

Mr. CAKE. You only lose the part that is not needed to cover those contracts that you referred to. You have a firm obligation then.

Senator SYMINGTON. And you can pay your commitment, is that it?

Mr. CAKE. That is true, after the appropriation expires.

Senator SYMINGTON. If you have not made any use of the money then, the money dies?

Mr. CAKE. Only the part that is not needed to cover such contracts.

Senator SYMINGTON. That is what I say, but what you have not got to cover the contract dies at the end of that year, with certain exceptions, like the Navy on ships, etc.

Mr. CAKE. That is correct.

Senator SYMINGTON. All right.

Now, what is the point then? I mean, you have not used the money, so the money dies.

Mr. CAKE. Well, if I understood the testimony of the Defense Department correctly, they advocated instead of keeping 2 accounts for each appropriation head, only 1 account, that is, the current account.

In other words, the way this bill is written, Senator, it would require you to keep 2 accounts for each appropriation head, one for the appropriation for the current fiscal year which is available to go out and contract under; and the other would be available only for the payment of those obligations that were incurred under the prior year's appropriations.

If I understood the testimony of the Department of Defense correctly they advocate instead of keeping 2 such accounts, to differentiate between the money for the payment of old obligations and which is restricted to that, and the money to use for the current year—they advocate putting all that altogether in 1 account.

Senator SYMINGTON. Let me see if I get this straight. You have a certain amount of money and you commit that money in contracts or purchase orders, or what have you, up until the end of that fiscal year.

Mr. CAKE. That is right.

Senator SYMINGTON. If those goods are not delivered, you do not pay against them; and, therefore, you lose that money and you have to get it in the new appropriations bill if you are going to go through with the objective for having the money in the beginning; is that right?

Mr. CAKE. No, sir. Under the present law and under this proposed bill——

Senator SYMINGTON. Let us talk about the present law and then we can talk about the proposed bill.

Mr. CAKE. Taking an annual appropriation, which is available only to enter into contracts for 1 year, at the end of that year any balance remaining in that appropriation can no longer be used for the purpose of going out and entering into contracts.

Senator SYMINGTON. Unless it has been previously committed.

Mr. CAKE. But it is available to pay for any contracts or deliveries under such contracts that were made in the prior fiscal year for 2 years longer. Under the present law it stays on the books. It is available in order to disburse money in payment of legal obligations that were incurred during the year in which the appropriation was alive.

Senator SYMINGTON. But which were not actually shipped at the time, so that you could not pay for that which you did not get in the year in question; is that right?

Mr. CAKE. That is true.

Senator SYMINGTON. Then you have 2 more years under the present law to use that money for commitments that were made for merchandise for the year in question?

Mr. CAKE. Correct.

Senator SYMINGTON. What is the change in the law proposed that would change the current method of being allowed to use that money for 2 years subsequent to the fiscal year in question?

Mr. CAKE. The bill would provide that at the end of the year in which this appropriation expired, during which it was available for obligation——

Senator SYMINGTON. The fiscal year in question?

Mr. CAKE. The fiscal year that it was made for. At the end of that year, you would examine that appropriation, the obligations against it, review them carefully, and determine how much of the balance, the unexpended balance was already committed and how much was uncommitted. You would write off the books at that time the uncommitted portion. It would disappear. It would not be available any longer.

Senator SYMINGTON. Isn't that sort of impractical?

Mr. CAKE. It is not available for anything, Senator.

Senator KENNEDY. Where does it go?

Mr. CAKE. The authority has expired.

Senator KENNEDY. You say you write it off. You are talking about the proposed bill. What would you do under the present law with that money?

Mr. CAKE. It would stay on the books for 2 years.

Senator KENNEDY. And under the proposed bill you would write it off?

Mr. CAKE. Under the proposed bill the uncommitted portion you would get rid of immediately.

Senator SYMINGTON. What do you mean by "get rid of"?

Mr. CAKE. Write it off the books.

Senator SYMINGTON. Cancel it out?

Mr. CAKE. Cancel it out.

Senator SYMINGTON. In the beginning when you asked for the money, did you think that you needed it?

Mr. CAKE. Yes; over a year ahead of the time that you are going to use it.

Senator SYMINGTON. So there is no change in your opinion as to a meritorious request to the Congress?

Mr. CAKE. Senator, of course, conditions change during the year, and it is kind of hard to estimate sometimes, so far in advance.

Senator SYMINGTON. Then you would say that you would approve writing off that money, so that it could not be used in the subsequent 2 years?

Mr. CAKE. The Treasury supports that position in the bill; yes.

Senator SYMINGTON. But do you not see how difficult that would be for the Department of Defense on long-term contracts?

Mr. CAKE. As I have said, we are in no position to judge what their peculiar problems are.

Senator SYMINGTON. If you buy a ship it takes 6 or 7 years to build it.

Take an airplane, a bomber, it takes months to build it, and for ships, years.

On the basis of the law that you present, if you do not actually get delivery then you automatically cancel it out. What would you do with half of a ship or half of a plane?

Mr. CAKE. You would have to get additional authority.

Senator SYMINGTON. Then you would come back constantly and take the time of the Congress to ask for the money that you had asked for before, is that right?

Senator KENNEDY. I am not sure that would be correct in the case of a ship.

Senator SYMINGTON. I do not understand it, Mr. Chairman.

Senator KENNEDY. I want to understand it, too. But that is not the question that Senator Symington asked. I think he is getting to the heart of the matter very well. That would not be true if you ordered a ship. If the ship were not delivered you would not cancel out that. That would be an obligation so it would not be affected here. We are talking about unobligated funds.

Mr. CAKE. That is true. That is an administrative matter and I do not know whether they would cancel the contract or come back to the Congress for more authority.

Senator SYMINGTON. You are up here testifying on the bill. That is a pretty important point. If you order food and do not use it, you order fans and do not want them, because you have a cool summer, I can understand that, but I think there is some special legislation incident to laying the hull of the ship.

Suppose you have a long-term contract for bombers and due to a change by the Government your delivery date is delayed.

Under this law, under your testimony, you would have to come and ask for that money again.

Mr. CAKE. That would be true, Senator, if you could not pay for those obligations within that time.

Senator SYMINGTON. Don't you think that is impractical?

Mr. CAKE. We do not anticipate any difficulty within the Treasury Department. I am in much better position to speak about our own operations.

Senator SYMINGTON. You would not support something in the Treasury Department that operated against the functions of another Department that uses a great deal more money than your Department does, and, therefore, gives them much more of a problem in dollars and cents than it would give you, would you?

Mr. CAKE. Well, I assume that if the Department of Defense has good illustrations and good examples and evidence of the need for making the retroactive adjustments under the bill, they can sustain that need with the subcommittee.

Senator SYMINGTON. They have to come back to the Congress and justify again what they have already justified, do they not?

Mr. CAKE. I assume they would.

Senator SYMINGTON. Would not that take a lot of unnecessary time?

Mr. CAKE. If there was much of that; yes, sir.

Senator SYMINGTON. It would probably run into billions of dollars of requests.

Senator KENNEDY. My understanding of it is that it would not affect those items which have been ordered and which have not been delivered. All it would affect would be those items obligated which have not been delivered and rather than have the money put in the Treasury in the Claims Section, the agency would be able to pay the claim itself. That is all this bill deals with. Is that correct?

Mr. CAKE. Yes, but, Mr. Chairman, the difficulty lies in the fact that within 3 months each agency must determine the amount which

is obligated and available for that purpose for paying those bills. If they miscalculate, if their records are not complete, or if they miscalculate the amount of those obligations, and understate them, that was Senator Symington's point, I believe.

Senator SYMINGTON. No, my point——

Mr. CAKE. They would then have to come back.

Senator SYMINGTON. A lot of things that you buy, especially in aeronautical material and maritime material, take a long time to deliver.

With the possible exception of 1 or 2 cases, as I read this bill, if you do not get delivery on those in the year in question, as you have interpreted this bill, you would have to come before the Congress and have a rejustification of the items in question in order to be able to pay for them.

I would think that would make a very tricky situation from the standpoint of the manufacturers, for example, if that is correct, the way I gather your testimony.

Mr. CAKE. You would only have to if you grossly underestimated what the amount of the ultimate payment would be. In other words, the difficulty, apparently, that the Department of Defense is trying to point out, is that within 90 days they have a very difficult problem of determining rather accurately or reliably the exact amount that should be reserved for future payments.

Senator SYMINGTON. Let me take a case.

Suppose you had a schedule, for example, to deliver, say 30 bombers in the last 3 months of this fiscal year and because of engineering changes specified by the Government you were not able to deliver those until you had completed the changes. Suppose the changes took another 12 months or maybe 15 months before you could deliver.

For example, would the Department of Defense have to come before the Congress and rejustify money in order to pay for those items when they were delivered in a subsequent or the second subsequent fiscal year?

Mr. CAKE. They would have only to rejustify the amount necessary if they had grossly underestimated the obligation.

Senator SYMINGTON. That would always be true—they would only have to justify the money necessary to pay the bill.

They would have to justify paying for the later account.

Mr. CAKE. If I might clear up just that one point, they will already have estimated under this bill what they think they will have to pay in the future. That will be available.

Senator SYMINGTON. But they might make a mistake?

Mr. CAKE. If they make a mistake and underestimate that, then they would not have the money necessary.

Senator SYMINGTON. In other words, if the mistake they made was, for example, that they did not know design changes were going to hold the delivery up 6 months——

Mr. CAKE. That is where the difficulty lies.

Senator SYMINGTON. That would not be their mistake, would it?

Mr. CAKE. I do not quite follow you on that.

Senator SYMINGTON. In other words, they are given a schedule of planes and they apply a certain amount of money to pay for them,

then they decide in order to make the plane more competitive as against possible opposition, they want to make changes on the plane.

Mr. CAKE. You could hardly call it a mistake.

Senator SYMINGTON. That is right. I would not call it a mistake, either; but on the other hand, whether it was a mistake or was not a mistake, they have not the money to pay for that unless they come back and ask for more money.

Mr. CAKE. As I understand it, that is true.

Senator SYMINGTON. That is the way you understand it?

Mr. CAKE. Yes.

Senator SYMINGTON. Is that true of all merchandise in the Department of Defense? Are there any exceptions?

Mr. CAKE. Sir, I cannot answer.

Senator SYMINGTON. Is there anybody here who could answer that question?

Mr. LANMAN. I am Mr. Lanman, Assistant General Counsel for the Fiscal Affairs for the Department of Defense.

I would like to say you are absolutely right with respect to the impact of this legislation on an annual appropriation account where we do have long lead-time procurement.

However, with respect to most of the hard goods, the major items we call them, the appropriations involved are made on a basis of no year limitation, no fiscal year limitations.

In the case of planes, ships, tanks, and most of the long lead-time articles, for which appropriations are made to the Department of Defense, this bill would have little, if any, application.

However, to the extent, as we testified earlier—to the extent that we have retained in annual appropriations long lead-time procurements, Navy ship components, etc., we do have the problem.

And additionally, the point we attempted to make earlier was that in these contracts and in many of the obligations of the Department of Defense, they change.

In other words, take the case of the fans that you spoke of earlier. We agree to pay a certain price for the fans. That obligation is clear. It probably would not happen in the case of fans, but there might be a price escalation clause in there to take care of increased labor costs which did not occur until sometime after the close of the fiscal year. Our obligation to pay is firm. And we would have to adjust the records.

If the money has been returned to the Treasury, then we have to get it some place. This bill provides that we would get it out of the current account. We are somewhat concerned with respect to the possible impact of that on our current account.

Senator SYMINGTON. I have to leave. I am very much in sympathy with Mr. Lanman's testimony. I would like to have some further time to go into this. Could you have a further hearing on this matter.

Senator KENNEDY. Will you go over again slowly for us, why this bill is going to make your problem more complicated, because if it is going to complicate more than help matters we should know about it.

Mr. LANMAN. As we indicated earlier we are in favor of the long-range objective of this bill.

Senator KENNEDY. Are you in favor of the bill?

Mr. LANMAN. We are in this position, sir: That is, that the bill if clarified to assist in the problems which I have just discussed——

Senator KENNEDY. Do you have clarifying language with you?

Mr. LANMAN. We have not, to offer here today, language for clarification but I am authorized by Mr. McNeil to say that we would be happy to join with your staff or submit some for the subcommittee.

Senator KENNEDY. As to how it might be improved?

Mr. LANMAN. Yes, sir.

Senator KENNEDY. Do you know whether the Treasury and these other groups would still support the bill, if the changes that you are going to suggest were put in?

Mr. LANMAN. I have no way of knowing that, sir, for sure.

Senator KENNEDY. Have you discussed your changes with the Bureau of the Budget?

Mr. LANMAN. We prepared a general comment on a similar legislative proposal, sir, to which we offered no language but we did indicate substantially, the same as Mr. McNeil did here this morning, that we felt if the major recommendations were enacted—take, for instance, the cost basis which I am not too familiar with or expert on, but assuming that we would believe that the Hoover Commission recommendation No. 17 under that circumstance would have to be followed literally; in other words, we could not go to the cost basis without a single account to reflect all of the transactions.

I am not qualified to discuss those aspects.

Senator KENNEDY. The cost is not in this.

Mr. LANMAN. I understand that.

Senator KENNEDY. There is no point in the subcommittee doing anything about this bill if the Department of Defense is not in favor of it as it stands.

First, we want your suggested language and then we want to know whether the Bureau of the Budget and other administrative agencies are in agreement with it. How can we function without that information?

Mr. LANMAN. I am sorry, sir, that we are not prepared to offer that at the moment. We can get it for you as quickly as possible.

Senator KENNEDY. Have you discussed it with the Bureau of the Budget?

Mr. LANMAN. Recommended language? No, sir.

Senator KENNEDY. Perhaps recommended thoughts that the language would implement?

Mr. LANMAN. Yes, we have.

Senator KENNEDY. Are they in agreement with it?

Mr. LANMAN. I think not, sir.

Senator COTTON. The suggestions that you have to make—do they have to do with S. 3362 or the bill that we are taking up tomorrow?

Mr. LANMAN. The testimony we have offered here is in relation to S. 3362, and we would have clarifying amendments offered to that bill.

Senator COTTON. That was my second question. Is it just simply a clarification or do your thoughts about this bill involve substantial change in the mechanics of the bill or the theory of the bill?

Mr. LANMAN. I find it difficult to state the position, sir, except to say that the bill, if enacted in its present form, we would find difficult to work with and we would suggest that if the subcommittee desires to

enact a bill in its present form, including the provisions for establishment of more than one account, to liquidate the prior year obligations, we would like to offer some language prior to the enactment.

If, however, the subcommittee is seriously considering the enactment of the provisions in S. 3199, we would prefer that nothing be included in this bill with respect to the establishment of the single account and that it be considered in connection with S. 3199.

Senator KENNEDY. We are going to hear more testimony tomorrow morning on S. 3199. In the meanwhile, we will have the staff and you get together on the language and the changes you might suggest for this bill and then the Bureau of the Budget can approve it and we will discuss it again.

Mr. LANMAN. Thank you.

Senator KENNEDY. I think it is unfortunate that prior agreement could not have been reached with the Bureau of the Budget, because it is pretty hard for us to consider detailed technical language. The representatives of the Bureau of the Budget say they are in favor of it, and then find it excepted to by the most important agency.

Mr. LANMAN. We did make known that we had some reservations with respect to the bill as introduced.

Senator KENNEDY. The reservations seem major.

Thank you.

We will now hear from Mr. Robert F. Keller, Assistant to the Comptroller General of the United States.

STATEMENT OF ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL; ACCOMPANIED BY KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL; JOHN MOORE, OFFICE OF GENERAL COUNSEL; AND S. M. BROWN, ACCOUNTING SYSTEM DIVISION, GENERAL ACCOUNTING OFFICE

Mr. KELLER. Mr. Chairman and members of the subcommittee, I have with me Mr. Karney Brasfield, Assistant to the Comptroller General; Mr. John Moore of our General Counsel's Office; and Mr. S. M. Brown of our Accounting System Division.

I have a short statement I would like to read, with your permission.

Senator KENNEDY. Proceed, please.

Mr. KELLER. We appreciate the opportunity to appear before you to discuss S. 3362 which, if enacted, will bring about substantial accounting improvements in the Government and will greatly simplify and facilitate the payment of amounts due to creditors of the Government which are chargeable to lapsed appropriations.

The Hoover Commission, in its Report on Budget and Accounting, made two recommendations in the particular area covered by S. 3362. These are:

Recommendation No. 17:

> That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

And recommendation No. 18:

> That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office but should be settled within the agencies.

S. 3362 will substantially carry out the objectives of recommendations Nos. 17 and 18. The only essential difference being that obligated balances for prior years would be consolidated in separate accounts, rather than brought forward to the current appropriation accounts of the agencies.

S. 3362 authorizes the agencies of the Government to pay undisputed bills chargeable to lapsed appropriations in precisely the same manner as bills payable from currently available appropriations.

This objective will be accomplished by repealing existing requirements that all obligations chargeable to lapsed appropriations shall be certified by the General Accounting Office in advance of payment by permitting agencies to retain obligated balances of appropriations made to them; and by granting, under regulations to be prescribed by the Comptroller General, authority to the agencies to pay prior year obligations from the retained balances through regular disbursing channels.

In the event S. 3362 is enacted, it is estimated that from 40,000 to 50,000 cases a year which, under present law, are required to be processed by the General Accounting Office, can be paid directly by the agencies.

As a result, claims adjudicators and supporting personnel of the General Accounting Office now engaged in such work will be available for assignment to more productive work. Paperwork and time lags will be substantially reduced.

In addition, the General Accounting Office will be able to discontinue the maintenance of approximately 35,000 detailed ledgers of accounts pertaining to lapsed appropriations.

The bill will not affect the responsibility of the General Accounting Office to adjudicate claims involving doubtful question of law or fact. Such claims will continue to be sent to the General Accounting Office for settlement.

In addition, the proposed legislation will reduce the carryover of unexpended balances in appropriations. At present, the entire balance of each annual appropriation is carried in the account of the agency for 2 years after the appropriation is no longer available for obligation purposes.

Under the provisions of S. 3362, the obligated balance of an appropriation will be transferred to an appropriation account consisting of the obligated balances of all prior year appropriations granted for the same general purpose.

The unobligated balance will revert to the general fund of the Treasury. These transfers will be based on reports of obligated balances which all agencies are now required to make under the provisions of section 1311 of the Supplemental Appropriation Act, 1955.

It is recognized that it is not always possible to report obligated balances of appropriations with precise accuracy, due to occurrences which may come about after the reporting date. Amounts ultimately required for liquidation of obligations may fluctuate.

However, the agencies will be able to utilize the savings resulting from excess obligations to offset amounts underobligated.

This feature, together with the authorization in section 3 of the bill to use currently available appropriations when necessary to meet obligations against prior years' appropriations, should afford suf-

ficient latitude to the agencies to effect payments to creditors without undue delay.

An additional benefit will be afforded by the bill. At present, liquidations of outstanding obligations against lapsed appropriations are budgeted and recorded as expenditures of the Treasury Department rather than of the agencies which received the goods and services.

This procedure overstates the expenditures of the Treasury and understates the expenditures of the agencies which incurred the obligations by several hundred millions of dollars each year. Under S. 3362 such expenditures will be recorded and reported as expenditures of the individual agencies who received the goods or services.

It is understood that the Burea of the Budget has suggested amendments to S. 3362. These amendments are for the most part technical. They have been discussed with us and we concur with the Bureau in recommending their favorable consideration.

We fully endorse the provisions of S. 3362, together with the amendments offered by the Bureau of the Budget and urge favorable consideration of the legislation by the Congress.

Senator KENNEDY. Are there any questions?

Senator COTTON. Mr. Keller, can you give a rough estimate of the amount of savings annually that this bill might effectuate?

Mr. KELLER. I can give you an estimate of annual savings, Senator Cotton, insofar as the General Accounting Office is concerned.

We estimate that we will have a reduction in personnel after we clear up certain other pressing work, which I hope will be in about 18 months.

We estimate we will need 106 personnel. Seventy-eight of these people would carry an average salary of some $6,500 a year, which would be the actual claims adjudicators. Twenty-eight will be servicing personnel with an average salary of about $3,300 a year.

I have not totaled those up, Senator Cotton, but I can do so.

Roughly, around $600,000 per year.

I say we cannot have an immediate savings because if this bill is enacted, we want to use our excess personnel for liquidating a backlog of claims the Government has against individuals, of which there are some 155,000 on hand right now.

Senator COTTON. How much, roughly, are the unobligated carryovers that this bill would cause to terminate?

Mr. KELLER. I am sorry that I do not have any figures on that. I think what you are talking about is the total amount of appropriations that we would no longer carry in the appropriation account.

Senator COTTON. That are now being carried?

Mr. KELLER. And revert back to the general fund of the Treasury.

Just a minute, sir. Mr. Brown, do you know how much went into the certified claims fund last year?

Mr. BROWN. No, I do not.

Mr. KELLER. I am sorry, we do not have that, Senator Cotton. I will be glad to furnish it for the record.

Senator COTTON. Can you supply it?

Mr. KELLER. Yes, sir.

(The information requested is as follows:)

1954 annual appropriations as of June 30, 1955

Unexpended balances of 1954 appropriations	$3,561,117,000
Unliquidated obligations	1,133,483,000
Less amounts receivable	14,872,000
Net unliquidated obligations	1,118,611,000
Amount that could have been withdrawn under the provisions of S. 3362, exclusive of the amount of obligations which were paid during the period July 1, 1954, to June 30, 1955	2,442,506,000

Senator COTTON. I noted with interest your statement when you referred to the fact that the Treasury is now being charged with expenditures that actually are on behalf of other agencies. Does that run into a very substantial amount?

Mr. KELLER. It is between one and two hundred million dollars a year.

Senator COTTON. What agency or agencies have the bulk of that?

Mr. KELLER. The bulk would be, I suspect, with the military agencies. At least, that is the way our so-called certified claims break down. About 80 percent of those claims arise in the military departments.

Senator COTTON. So that one effect of this bill as it affects the Defense Department would be that they would be in public accounting charged with more expenditures than they are now?

Mr. KELLER. What happens, Senator, is this. When appropriations reach the period of 2 years after the year for which they are made, the balances are carried into the certified claims fund. The certified claims fund is by legislation, under the jurisdiction of the Treasury Department. Therefore, the charges against it are charged against the Treasury Department. For payment purposes they are shown as Treasury disbursements.

Senator COTTON. Are you familiar with the general theory behind the suggested changes that the Defense Department is going to offer to this subcommittee?

Mr. KELLER. Yes, sir. Of course, I have not seen any language. I would like to comment on those changes for a minute.

Mr. Lanman brought some of the points out. One of the major considerations is the large procurement items. Insofar as Defense is concerned, they are financed from no-year appropriations, which this bill would not affect. In other words, no-year appropriations do not expire as of June 30 for obligation purposes.

Secondly, I would like to reiterate a point that I made in my statement. For example, on June 30, or within 3 months after that time, we contemplate that the Department of Defense, and other agencies will determine their obligated balances. That is, what contracts they have entered into up to June 30, what they are committed for.

That amount of obligations would be drawn off and set up in a separate account and merged with all prior-year balances of that type.

The Department of Defense, as I understand their position, is not so much disturbed about what happened up to June 30, because they have a picture of that. But after June 30, they may make an amendment to a contract entered into prior to June 30 which will result in more money than originally obligated.

Or they may have, as they pointed out, an escalation in a contract which would not have been taken into consideration at the time they determined their obligated balance on June 30.

My feeling on that is—and none of us have any way of proving our position one way or another since it can only be proved by actual experience—those events would happen, but at the same time you would have events occurring on the other side of the ledger.

In other words, contracts would be reduced by price redetermination. Contracts would be canceled in reprogramming. We feel that in the long run the two stand a good chance of balancing each other off, but if they do not, then provision is made in the bill that the agency can tap their current appropriation to pay any of those bills that come up for which they have not obligated sufficient funds.

If by so doing the agencies have to request a supplemental appropriation, Congress would have to consider the problem at that time.

I cannot say they would never have to request a supplemental appropriation, yet at the same time I would not agree that it would be necessary very often.

Senator COTTON. Thank you.

Senator KENNEDY. I would like to discuss that particular point a little more.

Under the present law the Department of Defense, if it is buying an item, or items, and let us not talk about ships or planes which are in a different category——

Mr. KELLER. I do not think they are a good example.

Senator KENNEDY. Let us talk about fans.

Mr. KELLER. All right, sir.

Senator KENNEDY. Under the present law, if the Department orders fans and it uses all of the money for fans, with the exception, say, of $5 million, that $5 million would be carried as unobligated money for 2 years, is that correct?

Mr. KELLER. Under present law that is right, on the basis that no contracts have been placed against the $5 million.

Senator KENNEDY. That is right. What use can the Department make of that unobligated money after the first year? The Department cannot use it, can it?

Mr. KELLER. Only to the extent that if in connection with their contract for fans in the previous year they came along after the end of the year and changed the specifications of the fans which made them cost more money, or if the contract, for example, provided for an escalation for labor increase.

In other words, that would be an occurrence after the original determination of the obligated balance had been made.

Senator KENNEDY. They cannot use the unobligated balance for anything but the liquidation of the goods for which they were obligated for the first year, is that correct?

Mr. KELLER. Liquidation of the contract in all respects, as I pointed out, that may be a change in specification or an escalation.

Senator KENNEDY. Under this new bill the unobligated money which would be available for these purposes only, which you have just described, would be taken away from the control of the Department of Defense completely, and then if there were changes in, say, an escalation clause, they would have to ask for a supplemental appropriation; is that correct?

Mr. KELLER. No, not entirely, Mr. Chairman. Only the unobligated balance would be taken away from the control of the Department of Defense. The Department of Defense, or any other agency, would be limited as to the total amount that they could spend for obligations incurred in the prior year.

But you cannot look at this matter as one individual contract. As I pointed out in the case of the fans, suppose we had an increased cost after June 30 of $100,000 over and above what we thought the obligation might be on June 30. At the same time we are looking at all contracts, and we know that due to changes in another contract less money would be required. This may be due to reprograming, etc., bringing about cancellation of a contract. When that happens the excess obligation recorded for the second contract could be used to balance off the under obligation on the first.

We think that is the way it will work.

Senator KENNEDY. I understand they can balance off these accounts, depending upon how they go up or down. We are talking now about this unobligated $5 million. At the present it will be carried on for 2 years and will be available for unexpected contingencies on goods which have already been ordered.

Under this bill that money would not be available unless the Defense Department asked for a supplemental appropriation?

Mr. KELLER. It would not be available, that is correct.

Senator KENNEDY. That is the part of the bill about which the Department of Defense has some reservations, as I understand it.

Mr. KELLER. As I understand their testimony, Defense is asking for a provision to adjust or to go back and pick up some of that money. I am not clear exactly.

Senator KENNEDY. The other part of the bill which deals with these claims, the payment of claims, I believe they favor, and you are wholeheartedly in favor of it, are you not?

Mr. KELLER. We have no reservations whatsoever about it. I base that opinion on our own experience.

I would like to give you an example on that. You may run into June 30 of a year when an appropriation can no longer be charged by the Department of Defense.

If the contractor had a bill in, regardless of the amount, and there is no question that it is due and payable, the Department could pay the bill on June 30. But on July 1, that same transaction would would have to be sent to GAO for settlement.

That is on the basis of the law enacted in 1949 which provides that the certified claims fund can only be charged against on a certificate of the GAO.

Senator KENNEDY. Under the present law they have the 2-year carryover?

Mr. KELLER. Yes.

Senator KENNEDY. Under this bill you would not have that 2-year carryover. Would that increase the number of claims?

Mr. KELLER. I do not see how it would. I do not see how it would change it a bit.

Senator KENNEDY. It would not?

Mr. KELLER. No, it would certainly decrease the number of claims that the GAO handles.

Senator KENNEDY. We want to be clear because of some of the questions that Senator Symington was asking. I do not know whether it was the impression that this would alter the power of the Department of Defense to carry over the purchase of hardware for the Defense Department. We are talking about the right to carryover, and I think he was concerned that it might affect the purchase of goods which take more than a year to produce. Those are all handled by other funds. It seems to me this would only affect something else.

Mr. KELLER. I would like to clarify that point, if I may. Let's go back to our example of the fans again.

If for any reason there fans took 2 years to produce, under a contract made prior to June 30, there would be a firm obligation for payment of those fans. The money would be available for 5 years, if necessary. There would not be any problem on that.

Senator COTTON. So long as they did not cost more than they had contemplated, they could change the make of the fan, and design of the fans, or postpone the contract for 2 or 3 years and still hold the money?

Mr. KELLER. Yes, sir.

Senator KENNEDY. I think your testimony and the testimony of the representatives of the Department of Defense and the Department of the Treasury is very helpful. We are very grateful to you.

Are you going to have a representative here to testify on Senator Payne's bill tomorrow?

Mr. KELLER. Yes, sir, Mr. Brasfield, whom I introduced earlier, will be the principal witness on that bill.

Senator KENNEDY. The suggested amendment would be that a section be written permitting exemptions from this provision, in cases where the Department of Defense requested it, and could justify it before the Congress. That might take care of those special cases which they feel would not be satisfactorily dealt with under the new bill.

Mr. KELLER. I would like to point out under that there is one provision, a Budget Bureau amendment, which may help the matter. It would be a new section 9. That section reads:

> The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act, and fixing the period for which such appropriation or appropriations shall remain available for expenditure, is hereby authorized.

As you are well aware, that would place Defense or any other agency in the position of proving their need to the Appropriations Committee.

Senator KENNEDY. Is this satisfactory to you?

Mr. KELLER. Yes, sir.

Senator KENNEDY. As I understand it, this language is satisfactory to the Bureau of the Budget?

Mr. FINAN. We recommended that.

Senator KENNEDY. Is this satisfactory with the Defense Department?

Mr. LANMAN. We have not had an opportunity to thoroughly discuss it, sir. We will have a talk with the military departments and representatives.

Senator KENNEDY. Perhaps tomorrow morning you could give us an opinion whether you would withdraw your major objections to it, if this language were in the bill.

Mr. KELLER. I would like to point out one other matter. We would like to see two separate accounts maintained instead of carrying forward the obligated balances of prior years into the new money account.

I cannot say that we would not be ready for one account at some time in the future, but being practical about it—and this is not aimed at any agency in particular—one account would place the agencies in the position of bringing over obligated balances into new money for the current year, and then it is possible that they could deobligate and have that money available for programing and procurement within the current year. This, in effect, would supplement the appropriation already made by Congress.

If I may make it clear, I am not saying anybody is going to do that. I think it would provide a means whereby it could be done.

Senator KENNEDY. That is a good point.

We will consider that carefully.

I wish to place in the record the following letter from Senator H. Alexander Smith of New Jersey.

MARCH 17, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization of Committee on Government Operations,
United States Senate, Washington, D. C.

DEAR JOHN: I understand that your subcommittee is planning to hold hearings on S. 3362 this coming Tuesday, March 20, 1956. That bill, as you know, covers the same aspect of the Hoover Commission Report on Budgeting and Accounting as my own bill, S. 2678, introduced last year.

I have studied the two bills and, as a result, I find your bill completely satisfactory and an appropriate substitute for my own. I am happy to see that some of these Hoover bills are reaching the stage where you are able to take some action on them.

Always cordially yours,

H. ALEXANDER SMITH.

The subcommittee will adjourn until tomorrow morning at 10 o'clock, when we will consider S. 3199.

I want to thank you all again for coming here today to testify before the Subcommittee on Reorganization.

(Whereupon, at 11:45 a. m., the subcommittee adjourned to reconvene at 10 a. m., Wednesday, March 21, 1956.)

BUDGETING AND ACCOUNTING

WEDNESDAY, MARCH 21, 1956

UNITED STATES SENATE
SUBCOMMITTEE ON REORGANIZATION OF THE
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 357, Senate Office Building, Washington, D. C., Senator John F. Kennedy presiding.

Present: Senators John F. Kennedy, Democrat, Massachusetts; Stuart Symington, Democrat, Missouri; and Margaret Chase Smith, Republican, Maine.

Present also: Senator Frederick G. Payne, Republican, Maine; Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; and Kathryn M. Keeney, clerical assistant.

Senator KENNEDY. The subcommittee will come to order.

We will resume hearings today upon recommendations made by the Hoover Commission relating to the Federal Government's budgeting and accounting programs.

Testimony will be devoted this morning to S. 3199, introduced by Senator Payne, of Maine, and also sponsored by the ranking Republican member of the subcommittee, Senator Smith of Maine, which would implement the Hoover Commission's recommendations in these areas. S. 3199 incorporates the provisions of S. 2480 and S. 2369 which also are pending before the subcommittee.

This bill would require the agencies of the executive branch of the Government to establish cost-based budgets;

Authorize the Director of the Bureau of the Budget to assign budget analysts to the principal departments to maintain a continuous review of budget preparation and administration;

Require each executive agency to maintain its accounts on an accrual basis to show more clearly resources, liabilities, and operating costs:

Establish a Staff Office of Accounting in the Bureau of the Budget, headed by an Assistant Director of Accounting, to develop an overall accounting program in accordance with standards prescribed by the Comptroller General:

Create an Office of Comptroller in each executive agency to supervise agency accounting and auditing systems as prescribed by the Assistant Director of Accounting proposed above; and require each agency, in accordance with standards prescribed by the Comptroller General, to maintain a single account under each appropriation title or fund.

We have as our first witness, Senator Frederick G. Payne, of Maine, the author of the bill.

As former Governor of Maine, and previously as commissioner of finance and director of the budget for that State, Senator Payne brings to the subcommittee years of experience in governmental budgeting and accounting, and the problems involved therein.

Senator Payne, it is, indeed, a pleasure to have you with us.

STATEMENT OF HON. FREDERICK G. PAYNE, UNITED STATES SENATOR FROM THE STATE OF MAINE

Senator PAYNE. Thank you very much, Mr. Chairman, and my distinguished colleague, the senior Senator from Maine. It is a pleasure for me to appear here today in support of S. 3199.

Let me say at this point, Mr. Chairman, that sometimes people become confused over amounts. The size in itself has no bearing on the problem since it makes no difference whether an amount is 60 billion or whether it is 1 billion, if a basic accounting philosophy which sets up adequate controls and fiscal reporting is established. So, dollar-volume as such sometimes confuses people because they think when you talk in great sums, that you are exaggerating the problem, whereas, actually, you are not if the basic concept is on a sound basis.

That the present fiscal system has serious shortcomings is rather unanimously agreed by all authorities in the field. As to agreement on particular shortcomings there is not so much unanimity, and with regard to possible corrective measures there is reasonable agreement on certain approaches and some disagreement on others.

The decade since the end of World War II has seen a growing demand for modernization of the budget process, and some progress has been made such as the Government Corporation Control Act of 1945, which placed the operations and accounting of government corporations on a business-type system; the 1949 amendment to title IV of the National Security Act of 1947, which provided for performance budgeting in the Department of Defense; and the Budget and Accounting Procedures Act of 1950, which carried out some of the recommendations of the first Hoover Commission, and took some major steps toward revitalizing the budget process.

Despite the fact that the record shows considerable progress, we still have a long way to go. There have been many proposals made which would purport to improve our fiscal system, with each receiving varying degrees of support from fiscal experts, both in and out of the Government.

Naturally some have more merit than others. On several of the major proposals there is substantial agreement on the general plan, but serious disagreement on the manner of implementation. A great many of these proposals, most of which appear to have merit in the long run, are in the field of procedural changes.

I am thinking of proposals in the nature of the omnibus appropriation bill coupled with the item veto, and changes in the organizational structure of Congress to provide for more coordinated consideration of appropriation and revenue measures.

In addition to the ones I have mentioned there are many other recommendations worthy of the most careful consideration as long-run methods of improving the fiscal performance of our government as a whole. Let me state at this point, that I do not believe that there is any panacea

for all of our problems in the area of fiscal performance and responsibility.

But I do believe that there is a logical starting point, and only by starting at the proper place can we hope to achieve the goals toward which all of us believe we should work.

The starting point, it seems to me is the development of sound, accurate, meaningful, useful fiscal data—in short, an adequate and efficient budget and accounting system.

Until we put the fiscal operations of the Government on such a system all of the desirable procedural changes in the world will have only minimum effectiveness.

As an accountant with experience in financial management in private business and Government, both State and Federal, this problem has given me a great deal of concern since I have been a member of the Senate.

To be very frank, I have been disappointed at the kind of budget information on which Congress must base its most important policy decisions including the overall size of Federal activities for the ensuing year.

After devoting considerable study to the matter I became convinced that the budget and accounting recommendations of the second Hoover Commission in its June 1955 Report to the Congress, entitled "Budget and Accounting" make up the best comprehensive approach to the problem.

The Commission itself drafted and had introduced bills that would implement some of the recommendations, but, in general, each bill applied to only one particular recommendation. It seemed to me desirable to have one omnibus bill that would include all of the basic recommendations that appeared feasible to adopt at this time. Therefore, I drafted and introduced S. 3199.

My colleague, the senior Senator from Maine, is here, and I think she will recall that during the period when I was in State government she sent to me at one time, at my request, a considerable volume of material; in fact, it came in the nature of full mail bags, relative to fiscal procedures then pertaining to the operation of the Federal Government. It has become more confused now than it was at that time.

Before going any further let me stress the fact that the real key to adequate, efficient budgeting and accounting is capable, competent, qualified personnel. The right type of personnel, skilled in their work and with a desire to do the best job possible, could make almost any system work. On the other hand Congress cannot by legislation create this kind of personnel, but Congress can by legislation provide the framework and the tools to make the job easier, and by clearly indicating its desires can provide the incentive to help qualified personnel meet the fiscal requirements of the Government.

S. 3199 is intended to adopt the majority of the Hoover Commission recommendations. A few were omitted for various reasons. Briefly I will try to indicate the general considerations which led me to this conclusion. The most obvious recommendation which is not in the bill is the one which would put the executive budget and congressional appropriations in terms of annual accrued expenditures.

This would require changing the present manner of handling long lead-time programs, such as major procurement and construction contracts, primarily in the Department of Defense.

I believe this is a very essential step and one that definitely should be taken, but it appears to me that the success of the proposal will depend on a basic foundation of adequate accounting and an ability to program effectively.

In other words, it would require a solid foundation. The bill is intended to develop such a foundation and, if it is enacted, it is my intention to draft a bill to carry out the accrued expenditure proposal after the accounting provisions of S. 3199 have had time to become effective.

Now, if I may at this point, Mr. Chairman and members of the subcommittee, let me say that this particular recommendation of the Hoover Commission to me has a great deal of meat in it and, as far as I am personally concerned, I would hope that the subcommittee would give a lot of consideration to the possibility of adopting the provision at this particular time.

The reason I mention the fact that you have to establish a solid foundation is because it is awfully hard in government, and I do not care whether it is local, State, or Federal, to get something to be willing to change something that they have been doing in a particular way for a long period of time.

But this particular proposal, to me at least, is the answer to ending a great deal of the confusion that exists at the present time in the handling of appropriations and in the tremendous difficulties that are being encountered by both the General Accounting Office, and the Budget Bureau and, in fact, if the departments will admit it, the departments themselves——

Senator KENNEDY. Senator, on page 4 of the bill, section 2 (c), it talks about the accounts of such agencies being maintained on an accrued basis.

You stated here that such recommendations are not in the bill——

Senator PAYNE. I am speaking now of the provision that is not in the bill, which would eliminate this long lead-time basis of appropriations.

In other words, what I am speaking of is the recommendation made by the Hoover Commission, which I believe, if I can find it here——

Senator KENNEDY. Recommendation No. 7.

Senator PAYNE. No. 7 is one of the most important—wait a minute. I have one book and you have the other.

Senator KENNEDY. No. 7—you have the task force book?

Senator PAYNE. On page 24, for instance, of the green book [indicating], is the recommendation I am referring to for the annual expenditure budget. Those that say it cannot be used should take a second look at it because the Corps of Army Engineers are operating under it at the present time.

In other words, the Congress gives to the Corps of Engineers, in effect, what is a contract authorization to do a certain job which will extend over a period of, let's say, 3 years or 4 years, but the annual amount of the project that the Corps of Army Engineers figure they year, is the amount that determines how much appropriation is given by the Congress for that 1 year of activity.

We do not appreciate a lump-sum amount that covers the entire amount of the project that the Corps of Army Engineers figure they are going to require over a 4-year period; yet we are doing that in the

construction of ships, in our airplane procurement, and in other activities, and it is the one thing that has confused this entire budget procedure.

Senator SMITH. Nevertheless, Senator, you think we should have the same procedure all through the Government?

Senator PAYNE. All through the Government—yes, I do. It is one of the very clear reasons why there is such difficulty in trying to tie down what the unobligated balances are. For instance, in the Department of Defense, I can recall, in 1935, I think, there was a discrepancy of somewhere, if I remember, over $5 billion. One figure was given one day and another figure was given another day.

Last year, in the aid program, I think there was something in the vicinity of $800 million.

Senator KENNEDY. Please continue with your statement.

Senator PAYNE. In its report to the subcommittee on S. 3199 the General Accounting Office approves the sections relating to cost based budgets and accrued accounting, but indicates that it favors the adoption also of the accrued expenditure recommendation discussed above.

For the reasons already indicated, I believe that the GAO is right in the long run, but that it would be impractical possibly to try to make such changes without having laid the necessary groundwork.

Notwithstanding this feeling on my part, but because I fully agree with the General Accounting Office, and I might say also that I think the Budget Bureau also feels this way about it, and others who are greatly concerned over the deficiencies of our present system, I stand ready to support the inclusion in S. 3199 of a provision requiring that the executive budget and congressional appropriations be stated in terms of annual accrued expenditures, if the subcommittee after careful consideration believes such a step is desirable.

If it is determined that such an amendment should be made, it must be remembered that provision will also have to be made providing for general authority to contract for programs that require several years to complete.

One or two other recommendations were omitted because they required the development of adequate systems before they would have any effect. Hoover Commission Recommendation No. 8 relating to enactment by Congress of appropriations for special programs not subject to budgetary control was omitted because it is a matter for which the Congress itself must develop policy.

Recommendation No. 18, which would relieve the General Accounting Office of the need to approve claims on lapsed appropriations, was omitted because I was advised that legislation was being prepared in cooperation with the GAO to implement this recommendation, and it is my understanding that this legislation has now been introduced.

Hoover Commission Recommendation No. 19 which would allow the Comptroller General to relieve accountable officers to financial liability except where losses result from gross negligence or fraud was omitted because it appeared that probably this went a little too far, and that present provisions of law were adequate for the purposes intended to be accomplished.

Public Law 365 of the 84th Congress, gives the Comptroller General authority to relieve disbursing officers in cases where the making

of any illegal, improper, or incorrect payment was not the result of bad faith or lack of due care.

In a statement dated October 26, 1955, the Comptroller General set forth some views on the Hoover Commission Budget and Accounting Report. In his comments on recommendation 19 he says in part as follows:

> It is our view that accountable officers should be held responsible for payments in violation of specific provisions of law, in contravention of regulations of the administrative agency, or contrary to decisions of the Comptroller General issued for the guidance of accountable officer, except in situations where such payments are "* * * not the result of bad faith or lack of due care * * *," the standard laid down in Public Law 365.
>
> This is a standard we believe more conducive to sound public administration than one requiring demonstrated evidence that "gross negligence or fraud" was involved.

Instead of discussing all of the provisions of S. 3199, Mr. Chairman, I would like to submit for inclusion in the record at this point in my statement a sectional analysis which I prepared at the time the bill was introduced.

Senator KENNEDY. Without objection, it will be entered.

(The document referred to above is as follows:)

SECTIONAL ANALYSIS OF PAYNE BILL TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS

Section 1 (a): This section is designed to directly implement recommendation No. 22 of the Hoover Commission Budget and Accounting report. The Commission did not specify the period comprehensive financial reports should cover, but it seemed reasonable that they should be on a fiscal year basis. However, it also seemed desirable to give the Director of the Bureau of the Budget some discretion since experience might well prove that such reports would be of more value if based on shorter periods. However Commission recommendation No. 22 is as follows:

Recommendation No. 22

"The the Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities."

Section 1 (b): This section is intended to carry out Hoover Commission recommendations Nos. 2, 3, 4, and 6. Basically, it would require the use of cost based budgets by all the agencies, for all management purposes. With regard to the requirement of quarterly reports to agency heads by subordinate units, the Hoover Commission made no direct recommendation. However, in line with the objective of improving the fiscal management function such reports seem desirable, and also they will form the basis of the annual report the agency head is required to submit to the Bureau. Hoover recommendations Nos. 2, 3, 4, and 6 are as follows:

Recommendation No. 2

"That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole."

Recommendation No. 3.

"That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance."

Recommendation No. 4.

"That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and ac-

complishments, and by a review of performance by organizational units where these do not coincide with performance budget classifications."

Recommendation No. 6

"That executive agency budgets be formulated and administered on a cost basis."

Section 1 (c): This section would put into effect recommendation No. 1. This, in particular, is one of the provisions that could be handled administratively. It would place employees of the Bureau in the executive agencies to help carry out the Bureau's managerial functions by maintaining a continuous review of budget preparation and administration. It is believed that this measure would be a major factor in achieving sound budget and accounting methods and would aid in developing some degree of uniformity in this field. The provision limiting the Bureau to not more than two persons for each principal subdivision of an agency was designed to place some initial limit on the number of personnel so employed. It may be found later that a different limiting number would be better. It is hoped that this problem will be carefully explored by the committee in studying this bill. Hoover recommendation No. 1 is as follows:

Recommendation No. 1

"(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

"(*b*) That in order to do this, among other things, it should place in important agencies one or more well-qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

"(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose."

Section 2 (a): This provision simply states legislatively recommendation No. 5 of the Hoover Commission, which is as follows:

Recommendation No. 5

"That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems."

Section 2 (b): This section is designed to carry out recommendations Nos. 14 and 16. This provision is a natural corollary of cost based budgeting. In practice it will mean that it will be possible for management to determine at any given time its fiscal status. Monetary property accounting is essential to determine with any degree of accuracy the fiscal status of an agency, either for management purposes or for the Congress. Hoover recommendations Nos. 14 and 16 are as follows:

Recommendation No. 14.

"That the Government accounts be kept on the accrual basis to show currently, completely, and clearly, all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting."

Recommendation No. 16.

"That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of the accounting systems."

Section 2 (c): This section would put recommendations Nos. 10, 11, and 12 of the Hoover Commission into effect. First it would establish a Staff Office of Accounting in the Bureau of the Budget headed by an Assistant Director and lists his duties. It is realized that there are valid objections to legislating an administration organization. On the other hand there is a clearly demonstrated need for improvement in accounting and it would seem, in view of congressional control of the purse, entirely proper for Congress to take this type of action. As the system contemplated in this bill is tested with experience there is nothing to prevent the Director of the Bureau from recommending changes. Recommendation No. 12 is covered in the duties of the Assistant Director.

The second part of the section would create the position of Comptroller in each agency and generally outlines his duties. Actually almost every agency has a position that in some respects corresponds to a Comptroller, but there is wide variation in the powers and duties of these positions in the various agencies. In the interest of promoting improved fiscal performance it is believed that much

could be achieved through the clear delineation of the major functions of an agency comptroller. Hoover recommendations Nos. 10, 11, and 12 are as follows:

Recommendation No. 10.

"That there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

"(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

"(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

'(*c*) To set reasonable but definite time schedules for performance and to watch progress.

"(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

'(*c*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies."

Recommendation No. 11

"That as an aid to financial management the position of Comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

"(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

"(*c*) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

"(*d*) To interpret and advise upon significant aspects of the financial reports.

"(*e*) To direct the preparation and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies."

Recommendation No. 12

"That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an importat phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget."

The General Accounting Office's report to the subcommittee on S. 3199 could be characterized, I believe, as generally favorable.

It does indicate, however, that the Comptroller General does not approve two provisions of the bill which I believe are important. The first is the section which would create a Staff Office of Accounting in the Bureau of the Budget, to be headed by an Assistant Director.

It is quite true that this recommendation could be carried out by administrative action and I recognize the principle that it is generally desirable to avoid creating departmental organization by legislative action because this tends to result in a lack of flexibility. In this instance it seemed to me appropriate to take such action, in view of the fact that it has not been done by administrative means; and because Congress is charged with control of the purse, it seems entirely proper for Congress to clearly provide for accounting in accordance with requirements and standards it establishes.

It should be noted that as conditions change there is nothing to prevent the Director of the Bureau of the Budget from recommending changes in the Staff Office of Accounting, and perhaps the subcom-

mittee will deem it desirable to include a provision to this effect in the bill.

The second provision which GAO does not approve is the one requiring the establishment of the position of comptroller in each executive agency.

In practice probably every agency has a position that corresponds in some respects to a comptroller. It is recognized that due to the wide variations in organizational structure no one pattern will fit all agencies, but it would seem that creating a comptroller in each agency would not interfere unduly with the structural organization.

In addition it would appear that in view of the importance of improved fiscal performance there is much to be gained from the establishment of such a position together with the clear delineation of duties of the agency comptroller.

In view of the need for improved fiscal performance, the savings in the cost of operation of the Government to be realized through efficient financial management, and the need to put the Federal budget on a basis so that Congress can more intelligently make the important policy determinations as to the extent and scope of Federal programs, I strongly urge that the subcommittee take favorable action on S. 3199 at the earliest practicable date, after making such amendments as it deems necessary, so that the Congress in this session will be able to take positive action in this field of financial management, which is of such prime importance to every citizen.

Until steps such as those included in this bill are taken, the Congress will continue to encounter great difficulty, due to inadequate factual information, both in attempting to properly analyze the budget itself and in considering the appropriation bills covering the projected operations of the many departments and agencies of our Government.

Senator KENNEDY. I want to thank you very much, Senator, for your very fine statement. It will be very helpful to the subcommittee. Senator Smith.

Senator SMITH. Mr. Chairman, I would like to join you in welcoming my distinguished colleague, the junior Senator from Maine, and say that it is a great pleasure to listen to his statement and I greatly appreciate the opportunity to cosponsor S. 3199.

I well remember the request you made for the material, Senator, and I wondered what under the sun you would ever do with so much, but apparently, you made very good use of it.

Mr. Chairman, Senator Payne, as you have noted by his service here and by his statement, is very well qualified to talk on the budget and accounting procedures. As commissioner of finance and as governor, he had a long service and very good experience that gives him a right to speak with authority on this subject. I want to say at this time, Mr. Chairman, that I am very sorry that I have not been able to attend the hearings as much as I would like to. I shall read the complete hearing. I am in Appropriations most of the time, so I am not here, but it is not lack of interest but lack of time. Thank you very much.

Senator KENNEDY. Thank you. The statement and introduction of the bill is most helpful.

Senator PAYNE. Thank you very much. Mr. Chairman, if I may, I would like to request that a statement which has been prepared by

Senator Wallace F. Bennett, in connection with this same bill, of which he is a cosponsor, be placed in the record at this point. Senator Bennett was not able to be here personally.

Senator KENNEDY. Without objection, we shall be glad to have his statement entered in the record. I want to thank you very much, Senator.

Senator PAYNE. Thank you.

(The above-mentioned document follows:)

STATEMENT BY HON. WALLACE F. BENNETT, A UNITED STATES SENATOR FROM THE STATE OF UTAH

Mr. Chairman and distinguished members of the committee, I'm happy for the opportunity of submitting today a statement in support of S. 3199, a bill introduced by Senator Payne a few weeks ago, which I was most happy to cosponsor. I think Senator Payne has done an excellent job in drafting this measure, and we are fortunate to have the benefit of Senator Payne's experience as a successful accountant during the consideration of the bill.

The bill has as its purpose the improvement of the budgetary and accounting procedures of the Federal Government and is based in large part on the recommendations of the Second Hoover Commission's investigation into this area of governmental activity.

For many years, both as a private businessman and as a Member of the Senate, I have been convinced that the budgetary and accounting systems of our Government were in drastic need of overhauling. There have been many attempts at modernization of the budget process, and considerable progress has been made since the Budget and Accounting Act of 1921. The Government Corporation Control Act of 1945; the 1949 amendment to title IV of the National Security Act of 1947; and the Budget and Accounting Procedures Act of 1950 were all helpful steps. But when I reviewed the report of the Second Hoover Commission to the Congress in June 1955, entitled "Budget and Accounting," it seemed evident that much remained to be done in improving the financial management of our Government. Dramatizing the need for such a revision is the conclusion of the Hoover Commission task force that a revitalized Bureau of the Budget, applying methods which private business has found essential to successful and economic operation, would bring improved financial management to Federal agencies, with savings estimated at $4 billion a year.

While the bill presently before the committee embodies a majority of the recommendations of the Hoover Commission report it was thought wise to postpone enactment of some of the recommendations until a solid foundation based on the development of adequate accounting could be laid.

Recommendation 18 relieving the General Accounting Office of the necessity of approving claims on lapsed appropriations is omitted from the bill because legislation has already been introduced to take care of the situation. Recommendation 19 to the effect that the Comptroller General be given authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud is omitted because it was thought the provisions of the present law (Public Law 395, 84th Cong.) giving the Comptroller General authority to relieve disbursing officers in cases where payments were not the result of bad faith or lack of due care, were adequate.

To comment briefly on some of the important provisions of this bill, I should like to say that I consider the establishment of a new Staff Office of Accounting, headed by an Assitant Director, of great importance. I don't wish to imply any criticism of the activities of the Comptroller General in connection with the joint accounting program, since I think he has made considerable progress in past years; but I do believe that the establishment of such an office would be an effective means of improving and tightening accounting and financial methods in the executive agencies and in coordinating these activities with the Bureau of the Budget.

I think section 121, providing for the appointment of an agency comptroller by the head of each executive agency, will do much to coordinate the Bureau of the Budget's activities with the agencies and at the same time make available to the agency heads responsible persons, skilled in accounting, statistics, and analytical procedures.

Section 2 (c) of the bill provides that each agency maintain its accounts on an accrual basis to show "currently, completely, and clearly the resources, liabilities and costs of operations of such agency * * *." Basically, this involves a shifting to a cost-accrual method of acounting, requiring performance budgets in terms of costs. At present, most agency budgets are prepared on the basis of estimated obligations to be incurred during the budget year. Obligations such as orders placed, contracts awarded, services received, and similar transactions during a given period, requiring future payment of money, which are incurred during the year do not necessarily have any relation to actual costs during the year. The Hoover Commission report emphasized that such a budget presentation fails to take into account inventories and other working capital carried over and available at the beginning of the year which may be consumed in the programs of the budget year. One of the most important elements of proper budgeting is the work or service to be accomplished and what that work or service will cost. Current Government practice fails to relate planned operations to past and projected costs.

There are other elements of the bill that are worthy of comment, but I think the excellent sectional analysis of the bill which has been prepared by Senator Payne covers these points adequately.

This year, when I started to study the bulky 1,200 page President's budget, I was once again struck with the enormous size and complexity of our Federal Government. As a Congress we are charged with the responsibility of comprehending this mass of data and properly evaluating it in order to determine the desirability of the various Government programs and the amount to be allocated to each. The savings possible through the enactment of this measure plus the efficiency of financial management it makes possible and the added help such a program will be to the Congress in helping us make intelligent decisions with respect to Federal activities mark this measure as one of great priority.

I strongly urge the committee to take favorable action on this measure.

Senator KENNEDY. It is a great pleasure to have as our next witness today Mr. J. Harold Stewart, senior partner of Stewart, Watts & Bollong, Boston, Mass. He was Chairman of the second Hoover Commission's Task Force on Budget and Accounting; past president, American Institute of Accountants, Massachusetts Society of Certified Public Accountants; Chairman on Cost Principles, Joint Contract Termination Board and Assistant Director, Office of Contract Settlement during World War II; and I am very glad to have him here, because Mr. Stewart is one of our distinguished citizens from Massachusetts, and is recognized as one of the Nation's foremost authorities on accounting.

He gave a great deal of time and effort to this report of the second Hoover Commission's Task Force on Budget and Accounting, which I think is a real public service.

It is an honor to have you here, Mr. Stewart. Will you continue in your own fashion? Do you have a prepared statement?

STATEMENT OF J. HAROLD STEWART, CHAIRMAN, SECOND HOOVER COMMISSION'S TASK FORCE ON BUDGET AND ACCOUNTING

Mr. STEWART. Thank you, Senator. I do not have a prepared speech, but I will submit a written statement to the subcommittee later. (See p. 83 for statement of Mr. Stewart.)

Senator KENNEDY. That will be fine.

Mr. STEWART. As a matter of fact, I have spent the last 48 hours digging myself out of snowdrifts in New England.

Senator KENNEDY. We are glad to have you here. Perhaps when you submit your statement—of course, we do have the task-force re-

port, which I suppose, condenses your opinion—you might care to comment on some of the legislation that has been introduced and some parts of it that you might agree with or other parts that you might not agree with.

Mr. STEWART. My statement would be directed particularly to S. 3199.

Senator KENNEDY. Fine, sir.

Mr. STEWART. Senator, it is heartwarming to come here and follow a speaker in a person who understands this problem, as it is abundantly clear, Senator Payne does. Accountants are a peculiar breed. They are looked upon as technicians usually, but here we have a Senator from a great State, who understands the fundamentals of accounting, in the same fashion as a professional practitioner would, as is clear from his remarks.

Senator KENNEDY. I understood Senator Payne is the exception to that rule, unfortunately. The rest of us do not have experience.

Mr. STEWART. I have known Senators who came close but I don't know anyone who is his equal in the accounting field.

Senator KENNEDY. I would agree with that.

Mr. STEWART. S. 3199, as it appears to me, is an attempt to put into congressional mandate the essential recommendations of the Hoover Commission

Now, it might be interesting for you to know that the driving force behind many of these recommendations, the real impetus to this philosophy, was the belief that in this Government we needed on the executive side the same kind of drive, the same concept of financial control, that we had on the congressional side.

As we reviewed the performance in the years intervening, since the work of the first Hoover Commission, we found that there had been a cooperative effort by the Treasury, the Bureau of the Budget, and the General Accounting Office, designed to effect improvements in the operation of the executive branch of the Government.

What was done was all to the credit of the cooperative effort, but we concluded that the real impetus to that effort came from the General Accounting Office and not from the executive branch. Looking logically to the executive branch, we said, "Where should this drive be centered?" Clearly, by Executive Order and by its constitution, really, the Bureau of the Budget is the management arm of the President. It seemed to us that accounting is nothing but a tool of management, as is budgeting. In fact, the task force was of the opinion that the name, "Bureau of the Budget," was perhaps a misnomer and it dwarfed, by its name, some of its real responsibilities.

That was the one recommendation of the task force which the Commission, in its wisdom, did not adopt. We recommended a change in the name to more precisely describe the functions of the Bureau. We felt that the effect on the whole Government would be to alert them to the fact that the Bureau of the Budget does something more than process a budget which annually goes to the Congress.

We believe that its real concern was with the processing of that budget and that it had not directed the force or the drive to the management aspects, particularly, accounting reform that would seem to be implied in its management responsibility.

Now, I say this not critically because, remember, that we have spent one two-hundredth of 1 percent of the annual Federal budget in ad-

ministering the budget. As I remember it, about $3¼ million was the figure in the budget which we reviewed for 1954. How on earth you can administer the greatest financial and operational organization in the world with an expenditure of one two-hundredth of 1 percent, is beyond my canny.

I talked with one gentleman who had been a Director of the Budget and he agreed that one of the most useful investments, one of the most rewarding investments we could make would be a strengthening of the Bureau of the Budget to the point that it did discharge its responsibilities, particularly in the management field. Of course, the Bureau of the Budget is on the spot. When it is involved in a drive to reduce the budget, it probably has to set an example itself in order that the other marchers in the parade may follow. This is unfortunate because it starts from a position in which it is badly undermanned, badly underpaid. The pay of the people who are directing the Bureau of the Budget is certainly not what attracts them to positions of such responsibility. How you could get anyone in our great national corporations, which are still plebs, compared with this Government, for anything like the salaries they are paid, I can't understand and from that standpoint, I feel the most useful recommendations which the Hoover Commission has made are the recommendations in the field of Government personnel.

Until we can recognize that we have a big organization which has responsibilities even beyond the private responsibilities of industry, and until we can attract and fasten into this Government people of competence, we will have repetitive commissions, I suspect, that unless something is done in the personnel field, you will have another commission, 3 or 4 years from now, telling you the same story.

As to the bill S. 3199, it goes along on all fours with the recommendations of the Hoover task force. As Senator Payne said, the Commission's recommendation No. 7 for an annual budget in terms of accrued expenditures was not included. As I understand it, he had no real objection to its inclusion. He questioned the wisdom of including it at this time.

Senator PAYNE. In fact, I am very enthusiastic over it because I think it is one of the basic troubles that we face in our Government today.

Mr. STEWART. Well, we felt the same way, Senator. However, I am inclined to agree with you that until you get the basic foundation, until you get the accounting and financial reporting framework in this Government which will permit you to go to an accrued expenditure budget, it would be unwise to attempt it.

Senator PAYNE. And, until you attract personnel that understand what you are trying to get at and are willing to give them the tools to work with, which the Congress can provide in the form of legislation, you still are going to be out in left field.

Mr. STEWART. Exactly. Now, of course, I think it was Thaddeus Stevens who said of specie payment. "The way to resume is to resume."

Senator KENNEDY. Who did you say that was?

Mr. STEWART. Thaddeus Stevens, speaking of the resumption of specie payment. Thaddeus Stevens was a Republican and from Pennsylvania. [Laughter.]

Well, in any case, they say that the way to resume is to resume, and it might be applied to this. Perhaps the way to go to an ex-

penditure budget is to go to it, but I fear if you go too quickly, you will find that you will have some of the troubles you had with the performance budget.

In my opinion, the attempts to inaugurate a performance budget were premature. For that reason, there was a good deal of criticism and misunderstanding of what was basically a sound idea.

I would like, however, to see the Congress, by legislation, or otherwise, indicate its belief that the ultimate objective should be a budget in terms of annual accrued expenditures. In other words, this accounting foundation which we are laying, this foundation of management, is directed to the implementation through an accrued expenditure budget in management.

Senator KENNEDY. Mr. Stewart, do you think you can summarize exactly how that would work compared to the present budget? It is discussed in the task report, but it would be helpful.

Mr. STEWART. Let me put it in as simple terms as I can, Senator. At present, the budget is concerned with obligational authority. The agencies go to the Congress and request obligational authority for various purposes. Now, that authority is usable in multiple years. Some of it, as Senator Payne pointed out, is for long lead-time items. In the purely housekeeping agencies and creations of the Congress, for instance, such as the FCC, ICC, Securities and Exchange Commission, the Bureau of Internal Revenue, even the Treasury, the difference between accrued expenditures and obligational authority would be rather narrow. But, it is in those agencies, in the fields of defense and foreign aid that the impact of a budget in terms of accrued expenditures would be particularly felt.

Senator PAYNE. If I might, Mr. Chairman, the reason for that is because the agencies that you refer to, like ICC, FCC, SEC, the Treasury Department, and some others of a similar nature, have annual needs for the operation of the Department which are not such as necessarily would confuse the issue too much. They are rather stable in their nature, year in and year out. They deal with personnel with certain commodities, contractual agreements, and so forth, and can pretty well be earmarked.

Mr. STEWART. Exactly. They operate essentially with personnel, supplies, services.

Senator KENNEDY. This would deal with the effective no-year appropriations?

Mr. STEWART. Exactly.

Senator KENNEDY. Would you explain how your system would work in the purchase of planes? Would it give us more control?

Mr. STEWART. Let's take a battleship rather than a plane. We all know it takes 4 or 5 years to construct a carrier. The Defense Department would come to Congress and say that we require vessels in a certain category, and convince the Appropriations Committee, and Military Affairs Committees, that the construction of a carrier was wise and they should have appropriated funds. You would give them initially, contractual authority, which would permit them to enter into a contract but you would say to them, "We want a projection from you as to when and how you are going to spend the money."

Let's say you are spending $50 million on a ship. What is your time schedule? Now, you do that in industry, and say the Standard of

New Jersey, for instance, wants to build a refinery in Venezuela. The Comptroller has to lay out the needs for funds, when they will be needed and the length of time required to complete the project.

Now, initially, the Department would be given enough funds to take care of the accrued expenditures, that is, that doesn't mean cash out of the till. That means to take care of the services and goods which would be received during a fiscal year, whether paid for or not, because if they incurred the expenditure by acquiring services or goods, to that extent, the Government is committed.

At the moment, you have the right of the Government to cancel any contract and pay whatever the termination charges may be, so that you wouldn't be altering, really, the present situation as it concerns the private contractor. He is always exposed to that, but you would be saying to the Defense Department, how much money in terms of dollars do you need for fiscal 1958? When they come in with the next budget on an accrued expenditure basis, there would be a review of the extent to which performance met promise. In other words, you told us last year that in the first year, you would need $10 million for this project. Now, how much of it have you spent? If you have spent $2 million, why? If they wanted to spend more, they would be in to see the Congress for supplemental appropriations for the year, but it would give Congress a feel of the pulse of Government expenditure, rather than leaving it open-ended.

Now, in the field of aircraft procurement, which Senator Payne referred to, as I remember it, in January 1954, the Defense Department was asked what the carryover of unobligated expenditures would be at the end of the fiscal year, June 30, and that was in connection with processing an appropriation bill. The response was, "Under $2 billion." I forget the exact figure, one billion nine or something like that.

On June 30, when the fiscal year ended, it was then possible to determine what the carryover was and the carryover was in excess of $4 billion.

Senator PAYNE. Let me just say there that it was possible, Mr. Stewart, but I have a very definite reservation in my mind as to even then, whether the figure was an accurate figure.

Mr. STEWART. I agree with you on that because I think one of the real lacks in this Government, particularly in the Defense Department, is a control of obligations. As I understand it, Congress passed legislation which required the Defense Department to report outstanding obligations.

Senator PAYNE. In fact, required all departments to report and the General Accounting Office has done a remarkably good job, but they have had a hard job.

Mr. STEWART. But, as you know, it followed a long period of argument as to what constituted an obligation and legal definition of obligation, and to the point it was abundantly clear that the furnishing of such a figure was not a comfortable job. It seems to me, comfortable or not, it is a figure which the Congress should have.

Now, if you look at the carryover of unobligated expenditures, you will get an idea of what I am talking about. The unexpended balances of appropriations for the year 1950, which was before Korea, remember, were about $11½ million brought forward into the year;

1951, fourteen billion, one hundred million; 1952, due primarily to Korea, fifty billion, three hundred million; 1953, sixty-eight billion, eight hundred million; 1954, seventy eight billion, four hundred million; 1955, sixty-eight billion; 1956 estimated at the time we did the job.

Senator KENNEDY. That is unexpended, not unobligated?

Mr. STEWART. Those are amounts unexpended—balances of appropriations.

Senator PAYNE. And they can be unobligated balances as well.

Mr. STEWART. Most of them are unobligated; yes.

Now, you see, the concept of controlling the financial operations of the Government through the obligational system, places a premium on obligating all funds before the availability of them expires.

Senator PAYNE. That helps them in coming before the Budget Bureau and the Congress the next year and say, "Look, this is what we had last year. We have got to have at least as much to operate this year, if not a little bit more." There is no attention given to what the actual expenditure is or the cost basis of the operation.

Senator KENNEDY. Does not Congress take into consideration the unexpended balance of the appropriation in appropriating the next year?

Mr. STEWART. If the Congress knows what they are. I think that has been a rather flimsy figure.

Senator KENNEDY. You feel the Congress has not been given accurate figures?

Mr. STEWART. Congress has been doing the best with what they have had.

Senator PAYNE. If I may, at this point, I think it is true that they have had very little information with regard to the pileup of inventories of supplies and of things that were brought in the prior year that are going to be used in this next year and you will find, and I notice it is true in State government itself, they do exactly the same thing. They always have to justify at least having as much as they had the previous year and as much more as they can get. It is a pyramiding proposition.

Mr. STEWART. When you talk about inventories, that is one of the targets that this will hit. At the moment, the Defense Department particularly is still wrestling with the problem of establishing inventories. Now, I have great sympathy with them in their job. It is a tremendous job but it seems to me that everything that is in this bill is directed toward strengthening the hands of people who want to get an accountability that will show what they own, what they owe, and what they have done with what they had. There are shortcomings in that field right now, as you know, Senator.

Senator PAYNE. Yes.

Mr. STEWART. The difficulty with the obligational system is the emphasis which it places upon using appropriated funds. That comes about partly because it is useful in going to the Congress for additional funds to show that you used what they gave you last year, but there is another facet of the problem. Congress appropriates the funds and they go to the agencies for use. Well, in the agency, we believe there should be an administrative budget and operational units should present the budget in meaningful terms.

As it stands at the moment, that is, not at the moment but at the time we made our examination, the administrative control of funds in the Department of Defense was being attempted through a so-called allotment system. The exact number of allotments we couldn't determine. We were told that there would be at least a million.

Now, I ask you, could you run any enterprise with a million allotments? The minute you set allotments 18 months in advance of use, you are pyramiding it and you are doing it on the basis of fragmentary cost information, and you are doing it on the basis which places the only criteria of performance on your ability to live within an allotment. That means if you don't spend more than the allotment, you have done a reasonably good job.

Now, we believe that with emphasis on cost, and cost by organizational units and functions, we could get away from that allotment concept and substitute what you have in industry. As a matter of fact, this accrued expenditure theory is not completely new to Government. I talked last spring with Dr. May in The Hague. He tells me that he worked and ultimately did place the accounts of the Dutch Government on an accrued basis. I have nothing but his word for it, but I would be interested and I think you might be interested to see whether that has not been done.

Senator PAYNE. I think that I read a treatise on that a little while ago, indicating that that has taken place. In connection with your statement on this breakdown of allotments in the Defense Department, let me say that, unfortunately, I happened to be tagged while I was in the Air Force, although I wanted to be in another line of work, with establishing the first approach to the development of a budget system in the Air Force.

I can subscribe fully to what you have said with regard to allotments. For instance, I was with the Flying Training Command and we were divided by breakdowns in the major commands over the country with Eastern, Central, and Western Flying Training Commands and with the technical training commands that also came in. They were broken down from Headquarters, Air Force, here, where I eventually landed at the last end of the war, down to the separate commands, then from the separate commands down to subordinate commands, and then from subordinate commands down to field commands, and it embraced even in the setup alone, thousands of separate allotments that were handed down to the field. I can tell you from my own experience, that whenever we endeavored to tie down what amount was available on an allotment given at any specific period, strangely enough, the word always came down from somewhere to the effect, regardless of what the actual encumbrances against that allotment were, "Report your obligation against that allotment as being approximately the amount that you have in your possession because we just can't afford to lose it as we have to make another stab at this thing next year."

So, that is the danger that you get into and it is not true of the Federal Government alone, as you run into it, Mr. Stewart, in State government and in every phase of government that you get into. It is an awfully hard thing to get away from and until you get something of the nature we are talking about here, you will never correct it.

Mr. STEWART. Now, even in the Department of Defense, they admit that it is possible. I have seen a letter from Mr. McNeil, the Comptroller, in which he says that it is feasible. It will present some administrative problems but they are not insurmountable. Of course, anything you do presents administrative problems.

Have I dwelt on that sufficiently, Senator?

Senator KENNEDY. Yes.

Mr. STEWART. I could go on for days on that one.

Senator KENNEDY. No, I would like you to go on to your next point. You have the bill in front of you. Would you care to go through it, maybe section by section, and tell us your opinion? Of course, they are all implementing the previous recommendations that you have made, but perhaps you could explain some of the different sections and also tell us what is in this bill, or the bill that we had hearings on yesterday, that would be worth the subcommittee's interest.

Mr. STEWART. I think I might short-cut this by saying that the only real question is whether or not some of these recommendations can be effected more quickly and more effectively by administrative means or by Executive order, if you will, or whether they require legislation.

Personally, if I were a Senator and I had a feeling that there was any dragging of the heels on the executive side of the Government, I would feel constrained to take the legislative route. But I haven't been present at these hearings and I don't know what resistance, if any, there might be. I suspect that there is very little in this that could be disagreed with in principle.

The first one that there might be a question raised on, 216 (b), could be done administratively. Of course, if it is done by congressional action, there is the additional spur that comes from the Congress having taken action on it.

Section 218 I think is a bit extreme because, as I see it now, the Director of the Budget has the responsibility which is set forth in that section.

Senator PAYNE. And, as a matter of fact, is trying to accomplish this very thing.

Mr. STEWART. Yes, and I think the structure, for instance, of, "Not more than 2 persons for each principal subdivision of a department or establishment shall be assigned by the director to any 1 department," would be unnecessarily restrictive. There might be times when you would want to really put shock troops in to a situation, and other times when you might want nobody.

Senator PAYNE. Of course, at the present time it is almost impossible to get people into Government that can comply with the qualifications I set forth here.

Mr. STEWART. I would think section 218 could be done better administratively.

I agree to everything until we get to section 120. That is the controversial one which I understand the General Accounting Office has a feeling shouldn't be done.

One reason for doing it, it seems to me, is to put some drive under this reform of financial reporting and accounting in the executive branch. It seems to me whether you do it by setting up a statutory office or whether you do it by taking a position that there should be in the Bureau of the Budget an Assistant Director for Accounting, we

will say, appointed by the Director of the Budget, I think is a matter for you gentlemen to decide.

I do think that something should be said in the legislation about the undertaking of that responsibility. I might say that the General Accounting Office, we found, was the most constructive influence in this whole Government accounting picture. Through their Systems Division, they had done a good deal to help agencies which had nowhere else to look. Logically, the agency should have been able to look to the Bureau of the Budget.

In the General Accounting Office they should be able to review this executive performance, rather than find that they actually had to do the job in some cases.

Senator PAYNE. Well, it is true, is it not, Mr. Stewart, and I agree with you, the General Accounting Office has done a remarkable job and without the type of work they have done, Lord only knows where we would be on our fiscal setup.

Mr. STEWART. That is right.

Senator PAYNE. But if the Bureau of the Budget with competent personnel and with adequate personnel were able to carry out many of the recommendations the General Accounting Office makes from time to time, and to work very closely and get the agenices and departments of the Government adopting more and more of these constructive suggestions and developing consistent overall policies, it would make the job of the General Accounting Office much more simple in their effort to do a factual and complete job of postaudit which, of course, is their prime responsibility.

Mr. STEWART. It would.

Senator SYMINGTON. Mr. Chairman, may I ask a question there?

Senator KENNEDY. Yes.

Senator SYMINGTON. I am sorry that I have been late, Mr. Stewart, but I have been to another hearing from 9:30 to just now. Let me be sure I understand what this bill is getting at, as you see it. The Director of the Bureau of the Budget will send two people to work in the Department of Defense?

Mr. STEWART. Well, before you came in, Senator, I suggested that that section seemed rather extreme because 2 people or 22 people in the Department of Defense would still be wrestling with an impossible problem.

Senator SYMINGTON. As I understand it, first, the budget of the Department of the Army is made up by the proper people within the Department and submitted to the Secretary of the Army; is that correct?

Mr. STEWART. That is right.

Senator SYMINGTON. And then the Secretary of the Army submits that budget, as do the Secretaries of the other two services, to the Secretry of Defense; is that right?

Mr. STEWART. That is right.

Senator SYMINGTON. And there it is examined and possibly changed. Then it is submitted to the executive branch of the Government at the level of the White House; is that correct?

Mr. STEWART. As I understand it.

Senator SYMINGTON. Right, and that is generally the Director of the Bureau of the Budget. He is the one that takes the next look at it.

Mr. STEWART. He is the fellow that gets the last look.

Senator SYMINGTON. Now, inasmuch as 65 cents of your tax dollar is for current military preparation—84 cents of your current tax dollar is for past, present, or possible future war—would it not be difficult to change any aspect of the situation by having two additional or two less people in the Bureau of the Budget?

Mr. STEWART. Well, I personally don't subscribe to writing into legislation what really is an administrative problem. In other words, if I were Director of the Budget, I would feel I should be free to apply as many or as few people as I wanted to any department.

Senator SYMINGTON. In other words, to do the job with whatever is necessary?

Mr. STEWART. That is right, and I would have to take responsibility for what is done. In our recommendations, we urged that within each department, the Bureau have a staff that is going along from day to day, and which is completely conversant with what is happening in the department. But again, until you can get the people, you can't do the job. I don't think anyone, after the fact, can take a look at that defense budget and know much about it.

Senator KENNEDY. Mr. Stewart, I would like to have you just sum up for Senator Symington what you talked about, how you feel the defense budget should be changed from the present system because he is very interested in that part of it and I would like to have his opinion on it.

Mr. STEWART. Senator, any change in the defense budget, maybe it is a masterpiece of understatement to say, is going to take time. It seems to me and it seemed to our task force, that a cost-based budget in terms of accrued expenditures was the most effective means of controlling the military budget.

Senator SYMINGTON. Now, I am sorry, but I do not exactly understand what you mean by that. I have defended military budgets and I have been in business but I would like your explanation, first, as to what that means per se, and second, as to how it differs from the current way of operating.

Mr. STEWART. The current budget is enacted in terms of obligational authority for multiple years.

Senator SYMINGTON. Obligational authority for multiple years. As I understand it, each department is given so much money in the way of appropriations which it can use. Some of it has to be used in the 12 months of the fiscal year in question and some of it can extend because of the nature of the product being purchased, beyond the fiscal year in question?

Mr. STEWART. Exactly.

Senator SYMINGTON. Is that right?

Mr. STEWART. Yes.

Senator SYMINGTON. I understand that is the way they operate now, on the basis of appropriations, obligations and expenditures; right?

Mr. STEWART. Yes.

Senator SYMINGTON. Now, go ahead.

Mr. STEWART. Once the money goes to the Defense Department——

Senator SYMINGTON. What did you say?

Mr. STEWART. Once the moneys are appropriated by the Congress and they are available for use, for obligation, you then have the problem of administering that budget within the agency.

Senator SYMINGTON. Yes.

Mr. STEWART. At present, the administration has attempted, through a so-called allotment system—that allotment system has over a million allotments, allotments and suballotments and administrative subdivisions of suballotments, so called——

Senator SYMINGTON. Now, when you say that the Department of Defense allots the money to each of the services——

Mr. STEWART. It first goes to the services.

Senator SYMINGTON. Right.

Mr. STEWABT. Then within the services, it goes to various activities.

Senator SYMINGTON. Right.

Mr. STEWART. And you will find allotments as little as a thousand dollars and our feeling was that in an operation of that size, it is impossible, 18 months in advance, empirically, to look at a situation and say that this particular item of this particular activity should have a thousand dollars.

Senator SYMINGTON. Actually more than 18 months, if you formulate for the fall of the next fiscal year.

Mr. STEWART. That is right. So we say, let's get some accounting in this picture; let's understand what they are doing with this money in terms of operational or organizational units. For instance, it is much more intelligible to take a look at an operation like a hospital and say, "How much money do you want for the hospital," and appropriate in terms of what you need for that hospital, rather than appropriate in terms of pay of medical personnel, pay of civilian personnel, pay of any other services that you may acquire outside, a multitude of supplies, and so forth. In other words, if you assign management responsibility within the Military Establishment to people, that responsibility can be gaged in terms of projected budgets.

Senator SYMINGTON. What you are saying is that you would like to see, in effect, a unit cost system applied instead of a departmental cost or subdepartmental cost system, is that right?

Mr. STEWART. That is right.

Senator SYMINGTON. I can see right away that the unit cost system will give you a better control of efficiency, but how about from the standpoint of bookkeeping, would it not be more difficult?

Mr. STEWART. As a matter of fact, I think they are doing more bookkeeping under a system that has a million allotments than you do under a system that went directly at organizational costs.

Senator SYMINGTON. But, you are going to have quite a few units, like hospitals?

Mr. STEWART. You are still accounting for them. Our feeling was that what we recommended should not increase the costs of accounting but should give you something more useful.

Senator SYMINGTON. To whom did you recommend it, Mr. Stewart?

Mr. STEWART. We recommended it to the Congress.

Senator SYMINGTON. When?

Mr. STEWART. I was chairman of the task force of the Hoover Commission.

Senator SYMINGTON. Did you discuss it with the Department of Defense?

Mr. STEWART. We did.

Senator SYMINGTON. Did you have hearings and have people over there from the Department?

Mr. STEWART. No.

Senator SYMINGTON. For example, what was your relationship as chairman with Mr. W. J. McNeil, the Comptroller of the Department of Defense?

Mr. STEWART. Well, I have known Mr. W. J. McNeil since the war years in the Navy. I knew some of McNeil's training, his background, his capabilities, and I knew some of the people with him. I had on my task force, one man who had worked intimately in the Department of Defense for quite a period.

Senator SYMINGTON. In what position?

Mr. STEWART. He was special assistant to McNeil.

Senator SYMINGTON. What was his name?

Mr. STEWART. Sullivan, Joseph M. We had in addition, the Department of Defense study, which had been made by the so-called Cooper committee. This was made about the time that our task force was created.

Senator SYMINGTON. What year?

Mr. STEWART. Well, it was so long ago, I would say in 1954. That was Charles P. Cooper, who used to be executive vice president of the American Telephone & Telegraph Co. He was asked by Mr. Wilson to make a review of fiscal control within the Department of Defense. We had, at the outset—the question was whether this project would be helpful to us in our work or hinder us. When I looked at the composition of the group, I personally was satisfied that anything that came out of it would be helpful. They made a study and made a report.

Senator SYMINGTON. Who made a study and who made a report?

Mr. STEWART. The Cooper Committee.

Senator SYMINGTON. Of the Hoover Commission?

Mr. STEWART. Oh, no, a study of the Department of Defense.

Senator SYMINGTON. At the request of Mr. Wilson?

Mr. STEWART. Request of Mr. Wilson and reported to Mr. Wilson. I talked at great length with Mr. Cooper and with some of the people who headed the accounting function for him. They were in substantial agreement with our task force. I didn't talk with them until we had ourselves spent time in the Bureau of the Budget, spent time with the General Accounting Office people, and in the Department of Defense, and had talked with people and had some feel of what our own position might be.

Senator SYMINGTON. Now, more specifically and for guidance, the task force for the Department of Defense under Mr. Cooper was in substantial agreement with your recommendations here to the Congress?

Mr. STEWART. I would say it was.

Senator SYMINGTON. That is what I wanted to know.

Mr. STEWART. I would say it was, although they didn't go as far as we went. They did not recommend that accrued expenditure budget, as I remember it, but they did recommend the setting up of——

Senator SYMINGTON. What do you mean by "accrued expenditure budget"?

Mr. STEWART. An annual budget in terms of the expenditures which the departments expect to incur, as the cost of goods and services to

be acquired during a year. That means whether they have paid for them or not. In other words, if they have had services rendered and haven't been billed. This is accrual—they owe the money, just as in business. If they have had supplies delivered to them and have actually used them, they have them under their possession, they would be accountable for them.

In the ordinary agencies of Government, that is, the housekeeping agencies, it would make very little difference, as you know, because all they deal in is salaries, services and supplies. In the Defense Department, we felt the advantage of an accrued expenditure budget would be a continuous look at these long-lead-time items. In other words, you go to the Congress and get an appropriation which would take care of your projected expenditures for a particular year. You would say also, now we are building a battleship, and we want contractual authority for a period longer than a year.

Senator SYMINGTON. You have that already. Let's take a bomber.

Mr. STEWART. You might have a bomber contract.

Senator SYMINGTON. I think if you laid a hull, you do not have to come back and get additional money for higher cost of a ship. At least, that is the way it used to be. Let's take a bomber.

Mr. STEWART. I will take a bomber contract. Initially, of course, you would have the development work. You would have to put enough in the budget under general development to take care of the development of the bombers, fighters, or whatever you had. Once a bomber had reached a stage of production, taking into account starting load costs and the final upswing in costs at the end of production, you would estimate what a certain number of bombers was going to cost you. You would say that, well, within fiscal 1958, we believe that we couldn't get delivery of more than 150, and 150 at a price which takes into account starting load costs and tapering off costs, which would be approximately X hundreds of millions of dollars.

That would be in the budget but the Air Force says, "Look, we need more than 150, we need 500." All right, then we will give you contractual authority to go ahead with 500. The next year when you come in, you again say how much money you need.

Senator SYMINGTON. You have put in the expenditure budget, as you call it, the amount of money that you believe will be necessary to pay for what you get during that year?

Mr. STEWART. That is right.

Senator SYMINGTON. But, at the same time, you also give, by law, the Air Force the right to contract for additional bombers, which you will not have to pay for in that year?

Mr. STEWART. That is right.

Senator SYMINGTON. Is that correct?

Mr. STEWART. That is it.

Senator SYMINGTON. That certainly is logical to me. Let me ask you, how does that differ from the present law?

Mr. STEWART. Well, as I understand it, under the present law, there is no cutoff point at the end of any year. You would have to get the Air Force money at the moment. You would give then so-called no-year money——

Senator SYMINGTON. No year?

Mr. STEWART. Called no-year money.

Senator SYMINGTON. What do you mean?

Mr. STEWART. Money that is not limited to the particular fiscal year in which it finds itself in the budget. In other words, the Air Force says, "We have a 3-year program under which we will need X number of bombers."

Senator SYMINGTON. I see what you mean.

Mr. STEWART. So, we now want obligational authority and we will immediately go out and obligate these funds or we may drag our heels.

Senator SYMINGTON. I understand. Let me ask you 2 or 3 questions around that. Would the contracting company, the supplier, accept a contract on that basis? Do you think he would consider it was an obligation of the United States Government?

Mr. STEWART. I think he would. I think he would be even better protected on that basis than he is now.

Senator SYMINGTON. Let me ask you the next question. Suppose you got a lot more airplanes, which would be a pleasant surprise, putting it mildly, than you expected during that year. Where would the money come from to pay for them under an expenditure budget? Would you get a supplemental?

Mr. STEWART. If you underestimated, just as you do now, you would have to go in for a supplemental.

Senator SYMINGTON. Suppose that you did not get nearly as many airplanes as you thought you would get, due to a change in design, which is very customary, because you are not designing for profit, you are designing for security, and the change comes in and you have many more engineering changes which hold up production. If you have an accrued expenditure budget, what do you do with the money that you do not spend that you thought you were going to spend?

Mr. STEWART. It would be included in the next year.

Senator SYMINGTON. Just be a carryover then.

Mr. STEWART. You wouldn't carry it over.

Senator SYMINGTON. What would you do with it?

Mr. Stewart. Come before the Appropriations Committee on your next year's budget and say, "Last year, we asked for money for 150 bombers. We only acquired 50. This year, we want 250," and at that point, the Appropriations Committee would take a look and say, "What has your performance been on your promise originally?"

Senator SYMINGTON. What I want to know is what do you do with the money if in an accrued expenditure budget you asked for money to pay for 100 bombers and you got 10? You have the money and it has been appropriated by the Congress and is in the hands of the Department of Defense and Air Force, but you do not have the bombers and you certainly do not want to pay for them if you do not get them. What do you do with that money?

Mr. STEWART. That money just lapses and goes in on your next appropriation.

Senator SYMINGTON. Then you just do not have that money any more?

Mr. STEWART. That is right.

Senator SYMINGTON. So you have an automatic cutoff?

Mr. STEWART. Because you didn't need it.

Senator SYMINGTON. Because you didn't need it?

Mr. STEWART. That is right.

Senator PAYNE. Because you did not use it. You may have needed it.

Senator SYMINGTON. This is very interesting. What is the difference really between that and between a normal budget where you appropriate the money but you do not spend it unless you get the product and you carry it over unless you cancel?

Mr. STEWART. Under this system, you are directing your attention to accrued expenditures rather than obligational authority. Now, the temptation, if you have obligational authority, is to use it.

Senator SYMINGTON. Yes.

Mr. STEWART. Because it helps you get more obligational authority. If you focus attention on accrued expenditures, the Congress then gets a look at this moving performance and it can see to what extent the services actually needed the money or to what extent they have actually used it. They may take another look and say, "What do you need this year? How much surer are you than before?"

Senator SYMINGTON. I did not hear that, I am sorry.

Mr. STEWART. They see in the second year, when you come in, after you haven't used your funds that year, what has happened and Congress would be alerted to the fact that they had expected to acquire 150 planes and only acquired 50. The question would be why?

Senator SYMINGTON. Now you are talking management. You are not talking accounting.

Mr. STEWART. Accounting is a tool of management.

Senator SYMINGTON. When you say why, that is management.

Mr. STEWART. Yes.

Senator SYMINGTON. I completely agree with you that we have a wonderful system in the Department of Defense to see that nobody steals any money but a rotten system to see how we can operate better, based on our accounting. Do you agree to that?

Mr. STEWART. I do.

Senator SYMINGTON. We have no management accounting but we have great recording accounting.

Mr. STEWART. That is right, purely historical.

Senator SYMINGTON. I am in agreement with you, Mr. Stewart. However, I am a little worried about the position of the contractor, how he would feel if this money is not actually appropriated because he has a great deal of expense that he cannot unit cost out against that delivery, which he might be afraid of losing, especially as he has a rather rough time, as you know, with the supervisory departments in the services.

Now, let's get back to the question that I asked a few minutes ago. As I understand it, Mr. Cooper agreed with you and you agreed, in effect, with Mr. Cooper and if there was any difference, it was one of degree and not of system, is that right?

Mr. STEWART. That is right.

Senator SYMINGTON. Now, what was the position of the Department of Defense in this matter? In other words, what was Mr. McNeil's position, because he is the one, as we all know, that runs the money in the Department of Defense?

Mr. STEWART. My understanding is that Mr. McNeil agreed with most of the Cooper committee's recommendations, but did not agree with all of the accounting recommendations.

You see, they went to such matters as procurement in their review.

Senator SYMINGTON. Who did?

Mr. STEWART. The Cooper committee.

Senator SYMINGTON. We are not talking about that. We are talking about your recommendations here which I thought Mr. Cooper was in agreement with.

Mr. STEWART. As I understand it, Mr. McNeil agrees with our recommendations.

Senator SYMINGTON. The ones that you have made here?

Mr. STEWART. Yes.

Senator SYMINGTON. And is there any objection in the Department or any objections in the Government to the recommendations you have presented here?

Mr. STEWART. I haven't seen any.

Senator SYMINGTON. Nobody has told you about that?

Mr. STEWART. No.

Senator SYMINGTON. You think if you wrote to the Department of Defense and asked for their opinion or the chairman did, that they would come back and say they approved your recommendations?

Mr. STEWART. I believe they would.

Senator SYMINGTON. Do you think all the long-term contractors, for bombers, where there is no special legislation—would they approve it, too?

Mr. STEWART. I don't know.

Senator SYMINGTON. If they would not, why do you think they would not? I am just asking for information.

Mr. STEWART. Because it hadn't been properly explained.

Senator SYMINGTON. If it was properly explained, they would approve it?

Mr. STEWART. I believe if it were properly explained, they would see advantages in it, the advantages being this: Suppose I am a contractor——

Senator SYMINGTON. I would like to hear the advantages, but inasmuch as the Department of Defense, you say, agrees with your position——

Mr. STEWART. Well, Senator, I am talking about our report as a whole on the accrued expenditure——

Senator SYMINGTON. What is the difference between your position and your report? Is not your report your position and your position your report?

Mr. STEWART. But the accrued expenditure aspect is but one facet of the whole problem.

Senator SYMINGTON. Let's talk about accrued expenditures. Did the Departmet of Defense agree with that part of your report?

Mr. STEWART. I haven't seen them take a particular position but I have seen a letter in which Mr. McNeil said that he believed it was feasible. It would present some administrative problems but it could be done.

Senator SYMINGTON. A lot of things are feasible that you do not agree with.

Mr. STEWART. Exactly. I suspect that it would take some education in the Department of Defense.

Senator SYMINGTON. You think they need it?

Mr. STEWART. I do, yes.

Senator SYMINGTON. From the standpoint of business management?

Mr. STEWART. I do.

Senator SYMINGTON. Would you mind if I joined you in that?

Senator PAYNE. If I may join in, Senator, it has been needed for a long, long time.

Senator, would you be willing to yield the floor at that point? The point Senator Symington is driving at is the very thing that you were recommending and would give an answer to the very many constructive positions that Senator Symington has taken with regard to certain accomplishments under programs enacted by the Congress. It would pinpoint and definitely explain before the congressional Appropriations Committee the exact determined accomplishment that a department made, whether it is Air Force, Army, Navy, or any other agency of the Government, with the moneys that the Congress gave to them to be able to carry out a specific program.

If they did not accomplish it, they would be in before the committee having to justify why they had not and why they are going to need so much more the next year.

Senator KENNEDY. Just to get it straight on the obligation, when Congress gives authorization for the purchase of 100 planes, instead of taking a 3-year period, then the Appropriations Committee does not appropriate the entire amount that first year; do they?

Mr. STEWART. Yes, they give them obligational authority for the entire amount.

Senator SYMINGTON. Which the contractor of the airplane could consider as an advantage. They can see the money and they have a lot of expenses.

Senator KENNEDY. It does not have to be reviewed again?

Mr. STEWART. That is right, Senator, and they feel it is an advantage, but they also get things known as cancellations and change orders, which, as you know, are very disconcerting to the contractor.

Now if you are trying to obligate money in order to retain it, you are bound to put out some contracts that you later want to change. If I were a contractor, I would like to feel I had a firm contract which they intended to go through on.

Senator SYMINGTON. The truth of the matter is, through the utilization of engineering changes you can take any fixed price contract and make it a cost-plus contract; am I correct?

Mr. STEWART. That is right.

Senator SYMINGTON. I would like to ask one more question, Mr. Chairman. May I proceed?

Senator KENNEDY. Yes.

Senator SYMINGTON. We get a great big telephone book called the budget and we are given a few days to look at the budget and approve it. Do you thing it might be constructive to have people allocated by the House Appropriations Committee, for example, and Senate Appropriations Committee, who would be physical participants to listen to the way that the budget was formalized, so that when the book came they could explain it themselves or, during the process, they could explain, for example, to the chairmen of the subcommittees in question, what the budget was all about? Have you ever given any consideration to that idea?

Mr. STEWART. Yes; we did. As a matter of fact, I can tell you within our task force we felt that the Appropriations Committees were inadequately staffed, but our job was to review the executive branch. We thought it might be presumptious to make that sort of recommendation, but the General Accounting Office, as you know, has been very useful to the Appropriations Committees in certain limited areas.

It seemed to me that they might be used even more.

Senator SYMINGTON. For example, if you formulate the budget of 1 of 3 services, 90 percent of the work is done below the Secretary of that service. That would be my guess of the hours of work. Say 5 percent is done in the Office of the Secretary of Defense, and the other 5 is done in the executive branch above the Department of Defense, primarily in the Bureau of the Budget. Those figures could be adjusted but, in general, that might be accurate.

Would it not be wise to have representatives of the legislative branch, with the premise that we have some authority in this picture with respect to money, allocated to the committees of the Congress, or allocated to the departments in question, so they could watch the budget being formulated? It starts being formulated on the first of July of the following fiscal year and then they work on it in July, August, September, October, and they generally get it to the Department of Defense around October, perhaps as late as November. Then it goes to the Bureau of the Budget and is rushed through for the President's message in January. That is about the chronology, is it not?

Mr. STEWART. Yes.

Senator SYMINGTON. You really do not have much of a look. You would certainly have a much better look if you worked in the department. Would you agree to that?

Mr. STEWART. Well, I don't know. I hadn't thought of it, Senator.

Senator PAYNE. Let me say this, if I may, Mr. Stewart and Senator Symington. The thing that you have suggested is a very sound one and, as a matter of fact, has a great deal of background behind it, not in the Federal system unfortunately, but it is a regular practice basically in State government, that in compliation of the budget, in the appearances of various departments and agencies of State government, that representatives of the legislature, representing both the House of Representatives and the Senate, are chosen to sit in and listen to all of the data that goes to make up the budget that is finally to be presented and they are able to be of service both to the commitees of the Congress or to the State legislatures, and are able to stand on the floor of the Congress and give specific information relative to any points that may be raised concerning any feature of it.

Senator SYMINGTON. I think that is most constructive. Thank you, Senator. I did not know that.

Senator PAYNE. It is done in State governments.

Mr. STEWART. I can see advantages in that but what is the sense in having them sit in if the basic facts which support a decision are not available?

Senator SYMINGTON. I will say this, that in the five military budgets that I defended myself, I was convinced that the Congress approved reductions, recommended after the budgets left the departments in question, on an economic, and/or a political basis, which they would not have done if they had gotten the true security import of the budget.

I do not think the legislators can ever get that full understanding unless they are in on the formulation of the budget at the working levels of the department in question.

Thank you, Mr. Chairman.

Senator KENNEDY. Mr. Stewart, we thought we might try to get the Department of Defense to come up and comment on some of the points you just made, and put them together in that way. Perhaps you would care to listen and at the end of the hearing, you could perhaps give up any further thoughts you might have, either by letter or memorandum. Would that be agreeable?

Mr. STEWART. I shall. I told you that the Department of Defense, I believed, concurred in these recommendations. I believe they all expressed their position in writing, as I understand it, which is more authoritative than anything I can say.

I would like to say that from an accounting standpoint, the Department of Defense has been completely inadequately staffed. You can't run the biggest accounting organization in the world with one man on the top, and by the time we reviewed it, there were simply two men of supergrades directing the accounting policy. It is completely inadequate.

Senator SYMINGTON. I beg your pardon?

Mr. STEWART. I am saying that the Department of Defense, from an accounting standpoint—I am talking about topside, is inadequate. You have a Comptroller and he had as his assistant, at the time we made our review, only one individual of a supergrade. I ask you, how can you run the biggest financial organization in the world with that kind of sketchy support?

Senator SYMINGTON. Mr. Chairman, I would like the record to show that Mr. Stewart and I never discussed this matter before this hearing. I could not be in more agreement with him.

Senator KENNEDY. I think he really rendered a great help to the committee. Mr. Stewart, we appreciate your coming down.

Mr. STEWART. Thank you, Senator. I will write you.

(Statement prepared by Mr. Stewart for insertion in the record follows:)

STATEMENT OF J. HAROLD STEWART, CHAIRMAN OF THE HOOVER COMMISSION TASK FORCE ON BUDGETING AND ACCOUNTING

Mr. Chairman and members of the subcommittee, I greatly appreciate the privilege which you afforded me to appear before you on March 21. The following statement is submitted to direct attention to particular provisions of the bills under consideration.

S. 2369 and S. 2480 are identical bills, the substance of which is also included in S. 3199. Consequently my comments are directed to the latter bill.

Section 1 (a)

This section appears to be designed to carry out recommendation No. 20 of the task force (recommendation No. 22 of the Commission), which had the purpose of stimulating the preparation of informative reports on the financial results of the Government's activities and placing the responsibility for such reporting on the Director of the Budget. There is a great deal of preparatory work required within the several executive departments and establishments before the Director of the Budget can produce reports which show reliably the financial results of their activities. I believe it would be more realistic if the Congress recommended the attainment of the desired result at the earliest possible date and left the accomplishment of it to executive action.

Section 1 (b)

This section recommends certain amendments to section 216 of the Budget and Accounting Act, 1921.

The proposed amendments section 216 (a), (c), and (d) would in my opinion give a necessary impetus to the use of cost-based budgets for management purposes and in making fund allocations within departments and agencies.

Should S. 3199 be amended to include a provision that the annual budget be expressed in terms of annual accrued expenditures, as Senator Payne has indicated it might, the enactment of sections 216 (a), (c), and (d) is absolutely esential. It is necessary to have requisite cost information in order to develop, intelligently, a budget in terms of annual accrued expenditures.

I suggest that paragraph (d) of section 216 end after the second comma, which follows the word "accomplishments." In my opinion the reporting of performance by organizational units when such units do not coincide with performance budget classifications would be most helpful to the Congress, but there is so much preparatory work to be done in this area that I would hesitate to recommend that there be a legislative requirement that it be done forthwith. I believe the Congress can obtain the same result through action of the Executive.

Section 218

Section 218 appears to go further than is either desirable or necessary in directing the performance of the Director of the Budget in the field of peronnel utilization. I believe the Director of the Budget should be held responsible for the intelligent selection and utilization of his staff. The limitations on the number of persons assignable to a particular activity and the length of service in one activity are undesirable. For example, the Department of Defense and its subdivisions could not be reviewed adequately with such limitations in effect. It wonld require at least 2 years for a newcomer to get his bearings in the Department of Defense if indeed it could be done in such a limited period. Consequently, I would suggest that the objectives sought by section 218 be accomplished by executive action, the Congress emphasizing its concern that properly qualified personnel be employed and that reasonable rotation of duty was desirable in order that representatives of the Bureau of the Bndget not become captives of the organizations for which they have review responsibility.

Section 120

I agree with the proposal that there be established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting. However, I would provide that such individual be appointed by the Director of the Bndget. The function to be performed is a responsibility of the Director of Budget and were S. 3199 enacted as proposed the position snggested would be the only one in his organization not under his control.

The other provisions in S. 3199 appear to be both necessary and desirable.

I urge strongly that the bill be amended to require that the appropriations by the Congress be in terms of annual accrued expenditures. The transition to that form from the present method of appropriating in terms of obligational authority should be a matter of execution by the Director of the Budget who should be directed to make such transition at the earliest possible date. It might even be that the transition could be a gradual process to be effected as soon as a particular agency's records and controls will permit.

In my remarks I have already indicated my conception of the annual expenditure budget. The annual expenditure budget was dealt with in the report of the task force, pages 37 to 40, inclusive. In my opinion, an annual expenditure budget is necessary to the effective control over Government expenditures. In this opinion the task force was not alone. The Cooper committee, which advised the Secretary of Defense on fiscal organization and procedures in the Department of Defense, suggested that consideration be given to this form of budget. In addition, a group of professional accountants who studied the matter at the request of the Bureau of the Budget made such a proposal.

As I testified before you, I believe one of the greatest present needs in the Federal Government is centralized dirction and coordination of the Government's budgetary and accounting activities as a whole. The proposed legislation is, in my opinion, admirably designed to achieve that end. By centralizing responsibility for budgeting and accounting in the executive branch, the task of the Comptroller General, as the agent of the Congress, should be made easier.

The Comptroller General has been a constructive influence in accounting reform in the Federal Government. It is hoped that with the aid of the proposed legislation, the executive branch would assume and discharge its responsibility with equally constructive results.

SUMMARY OF SUGGESTED CHANGES

Section 1 (a)

That this be accomplished by executive action.

Setcion 1 (b)

That section 216 (d) end after the second comma which follows the word "accomplishments."

Section 218

That this section be eliminated and there be substituted therefore a requirement that at the earliest possible date the appropriations by the Congress be in terms of annual accrued expenditures, the accomplishment of this to be the responsibility of the Director of the Budget.

Section 120

That this section be amended to provide that such individual be appointed by the Director of the Budget.

Senator KENNEDY. Perhaps you could stay and we will have the Department of Defense up now and they might comment on some of these points.

BOSTON, MASS., *April 7, 1956.*

Hon. JOHN F. KENNEDY,
Senate Office Building, Washington, D. C.

DEAR SENATOR KENNEDY: I have been away from my office almost constantly since I appeared before you in Washington and, in consequence, this is the first opportunity I have had to submit comments on the testimony of Mr. W. J. McNeil, Assistant Secretary of the Department of Defense.

I have read Mr. McNeil's testimony and it appears to me that Mr. McNeil is in general agreement with the provisions of S. 3199 and the possible amendment which would place the annual budget on an accrued expenditure basis. However, I get the impression that he has some misgivings concerning the practical application of the proposed legislation. Mr. McNeil has indicated there was a lack of understanding on the part of those who had recommended changes in that the particular problems of the Federal Government are not appreciated (pp. 226, 230, 234, and 236). It appears from Mr. McNeil's testimony that his paramount concern is accounting for obligational authority and making sure that no funds are spent except under authority of the Congress. In this view there is no disagreement. However, the recommendations of the Hoover Commission are designed to direct attention primarily to the development of financial facts as a tool of management. The accounting for appropriated funds can be greatly simplified once an adequate accounting system from which reliable operating costs can be derived is in existence. The allotment system which existed when the Hoover Commission task force made its review comprised over 1 million separate allotments within the Defense Department. These allotments were used as a means of control over appropriated funds. The substitution of a sound accounting system for an overdetailed system of allotments is the essence of the accounting recommendations as they pertain to the Defense Department.

Mr. McNeil talks about there being "some misunderstanding on the part of some accountants outside the Federal Government of the special accounting needs of the Government and some impatience with the maintenance of the obligation and expenditure bases of accounting" (foot of pp. 292 and 293). I trust that this reference is not directed at the budget and accounting task force of the Hoover Commission which would have an intimate knowledge of the accounting needs of the Government and was impatient with the emphasis which was placed upon the maintenance of the obligation and expenditure bases to the exclusion of the usual accounting for management purposes.

Again, Mr. McNeil says on pages 296 and 297, "I think we have got to get this accounting geared in such a way as to encourage or force management

decisions. And there is too much of a tendency sometimes to develop accounting for accounting's sake and see that the two columns balance. * * *"

I am not conscious that any of those who have reviewed the Defense Department's accounting situation, whether it be the Hoover task force or the Cooper commission, have shown any tendency to develop accounting for accounting's sake. I am somewhat confused by Mr. McNeil's concept of accounting. On page 297 he says, speaking of the Comptroller General, that the emphasis of the Comptroller General's Office must be and properly should be on accounting and then continues to say, "But I think the emphasis has to be on getting figures that help senior commanders, secretaries, and whatnot, to be better able to run the show." If an accounting system, which is nothing more than a system under which financial figures are developed, does not develop figures which help the responsible individuals to operate, it is inadequate. I cannot understand the difference between accounting and "getting figures that help senior commanders, secretaries, and whatnot, to be better able to run the show."

At present, the figures upon which action should be based are not developed as they are in industry, under a system designed to develop financial facts for management, which development is synonymous with accounting. It appears to me that Mr. McNeil is facing two ways. He emphasizes the necessity of accounting for obligations and then, on page 248, says, "Now, under that system, in the past I think the Government has devoted too much attention to the obligation side of the picture and not enough to the cost. There is no question of that. But at the present time, there is a great deal of sentiment to think only of costs and never of the obligation side. And I think that would also be dangerous both for the Congress and for the department." The Hoover Commission task force was not among those who contributed to the unidentified sentiment of thinking only of cost and never of the obligation side. As a matter of fact, the Hoover Commission Recommendation No. 13, which recommended the simplification of the allotment system, carries with it the implication that an allotment system to control appropriations is required and should be continued. However, our criticism is not directed at an allotment system, but at the present allotment system in the Department of Defense. The Acting Comptroller General, in a letter dated July 9, 1954, stated to the chairman of the Committee of Appropriations, House of Representatives, as follows:

> "It should be mentioned * * * that it becomes increasingly more obvious that the excessive use of detailed administrative allotments as the basis for administering programs under appropriated funds is a significant factor in the confused and unsatisfactory situation with respect to financial control in the Department of Defense. The extent of the problem which the Department generates for itself is illustrated by the fact that on a recent field inspection of one installation it was noted that over 10,000 individual allotments or administrative subdivisions thereof had been established. Each individual allotment or administrative subdivision acquires legal status insofar as violation of section 3679 of the Revised Statutes (the Anti-Deficiency Act) is concerned."

The so-called clarifying amendment which Mr. McNeil offers suggested that the last sentence under section 216A be changed to add "considering the lead time which must be allowed in incurring obligations in advance of incurring costs." I do not believe this addition is either necessary or desirable. I believe it is undesirable in the legislation to get too far into the mechanics implementation. A cost-based budget in terms of expenditures must, of course, take into account the lead time which must be allowed in incurring obligations in advance of incurring costs. I am fearful that even the reference in the bill to obligations will further accent and encourage emphasis on the obligational concept which should be replaced with a cost concept. The control of obligations should be secondary to management control which should be concerned with costs.

Mr. McNeil says on page 295, "While we agree that the use of the accrual basis of accounting is desirable to the extent of providing the same basis of accounting as required for budgeting on a cost basis, we believe it is important that there be no indication in the bill of either implying possible elimination of the obligation and expenditure basis of accounting for funds or any possible requirement to duplicate such accounting through the use of another system, even with the understanding that there be reconciliations between the two systems. The accrual basis of accounting can be integrated within the basis of fund accounting without the use of any separate system of accounts, nor requirement for a reconciliation between separate cost and obligation accounts.

Such integration is often facilitated by the use of revolving funds, as in the Department of Defense, financing inventories of consumable material and production of goods and services in industrial and commercial type activities, for sale to activities financed by appropriated funds." Mr. McNeil in this statement indicates that the obligation and expenditure basis of accounting represents an accounting system and expresses fears of possible requirement to duplicate such accounting through the use of another system. Certainly the present obligational system is not such an accounting system as should be used for management purposes. Mr. McNeil's statement would appear to indicate that he looks upon the obligational accounting of the Defense Department as an accounting system. It is not a question of the elimination of the obligation and expenditure basis of accounting for funds. The real question is simplification of that system with the drastic reduction in the over 1 million allotments and the substitution therefor of an accounting system from which understandable financial information can be obtained for management.

Mr. McNeil has further pointed out the responsibility for accounting principles and standards in the executive branch should lie in the Director of the Budget rather than the Comptroller General. The task force considered this matter very carefully and it was our conclusion that although in theory and in industry accounting responsibility would lie entirely with the executive, in the case of the Federal Government the responsibility for operations was not and probably never can be, clear cut. The Congress has some degree of responsibility even though the prime responsibility for operations lie with the executive. It appeared to us that Comptroller General, as an arm of the Congress, had used his authority for setting principles and standards with great discretion. These principles and standards have been set on a broad and flexible basis and present no obstacle to effective operation in the executive department. We do not believe that the proposed Assistant Director of Accounting in the Bureau of the Budget would be in any way hampered by a conflict in concept of standards and principles. If that day should come, the Congress would then be compelled to resolve any differences, but to anticipate them now will, I believe, only result in debate and conflict over a purely theoretical question. There is nothing in the pronouncements of the Comptroller General to date which would do other than strengthen the hands of those in the executive branch who have a desire to effect management improvements. I do not agree with Mr. McNeil when he says, on page 297, "that the emphasis" of the Comptroller General, "must be and properly should be, on accounting." Accounting is but one tool used in performance by the agencies and the Comptroller General's attention must be directed to agency performance, including an appraisal of the adequacy of its accounting mechanism and the reliability of its financial representations.

One of our observations in connection with the Defense Department was that there was a great underestimation of the necessity for and uses of an up-to-date accounting organization. Accounting and budgeting are so closely related that it is impossible to deal with one without considering the other. Sound budgeting requires a knowledge of financial facts developed through an accounting system. In our task force report we said:

> At the Department of Defense level the necessity for accounting strength in the comptrollership organization does not appear to have been appreciated fully despite heavy accounting responsibility which has no counterpart in industry. For example, the accounting function is staffed with but one super grade civilian employee, a GS–16 (base pay $12,000 per annum) whereas the Comptrollers' budget staff includes 7 positions in the super grade of which 1 is a GS–18 (base pay $14,800 per annum).

I think it will be generally agreed that sound budget preparation requires as its foundation financial facts, particularly costs, developed through an adequate accounting system.

On pages 300 and 301 of his testimony, Mr. McNeil suggests a restatement of the proposed section 113C. I do not believe a restatement along the lines indicated is useful. There is nothing in the proposed restatement that cannot be accomplished under the legislation as proposed. I think the portion beginning with the last sentence on page 300, which says, "In addition, the accounting system required shall include adequate monetary property accounting records, integrated with the appropriated fund accounts. Wherever desirable to facilitate this integration, the use of revolving funds shall be encouraged to finance procurement and inventories of consumable materiel and production of goods and

service for sale on a reimbursable basis to consuming activities financed by appropriated funds," is particularly undesirable because it attempts to prescribe the method of keeping the records and even goes so far as to require that property accounting records shall be integrated with the appropriated fund accounts—whatever that may mean. The concluding sentence which says that the use of revolving funds should be encouraged to finance procurement of inventories, etc., is again a matter of detail which should be left flexible. It is not primarily an accounting matter. There are at present those in the Defense Department who are zealots in the application of revolving funds and oppose any accounting improvement which does not envision the use of revolving funds. This situation was recognized by the Budget and Accounting Task Force which took the position that revolving funds in certain instances were very useful, but should not be looked upon as a panacea for curing the accounting ills of the Department.

In stating its position on the Commission's report on Budgeting and Accounting, the Defense Department with respect to recommendation No. 15 has apparently resented an implication that there may be disadvantages in the use of revolving funds. It was the considered judgment of the task force that under certain circumstances the use of revolving funds minimized congressional control of agency operations and that their widespread use could result in too many pockets of funds which become cumbersome from the standpoint of efficient administration. The Defense Department apparently does not concur in this view. It has taken the position that the Commission's report on Business Organization of the Department of Defense differs from that of the Budget and Accounting Task Force. This is not so. I was Chairman of the Budget and Accounting Task Force and likewise was a member of the separate task force headed by Mr. Charles R. Hook, Sr., which studied the business organization of the Department of Defense and in the latter capacity it was my particular responsibility to deal with financial controls. You will notice that the report of the Business Organization of the Department of Defense dealt, on page 78, with the matter of revolving funds and recommended their continued and extended use where they are suitable. The latter limitation is consistent with the Budget and Accounting Task Force position that revolving funds should be employed only in situations where they provide greater economy and efficiency than do direct appropriations. The importance of the matter of whether or not revolving funds are utilized in the Department of Defense has, in my opinion, been overemphasized. The first need is a sound accounting system and the matter of funding appropriations is a collateral matter. The Committee on Business Organization of the Department of Defense said in speaking of working capital funds on page 78 of its report "revolving funds buttressed by accounting systems which disclose full costs of operations, contribute to improved management control." Consequently, in recommendation 17 of the Commission, the use of working capital funds was recommended wherever they would add to efficient management.

I have dwelt on this matter of working capital funds at some length because there has developed an ideological struggle for and against them. I believe this is unfortunate, I do not believe one can take a flat position for them under all circumstances or against their use under any circumstances and to place their use as a prerequisite to accounting improvement will impede progress.

The position that the Government cannot adopt businesslike practices because its problems are different was anticipated at the time of our report. In my opinion, the differences are attributable largely to a willingness in Government to go along without change. The same argument is used in business when changes are suggested. A frequent defense is that the particular business under consideration is unique and, consequently, business practices of demonstrated merit are of questionable utility.

A good example of what can be done in the development of meaningful financial reports as an aid to management is found in the Atomic Energy Commission and I believe the committee would be interested to review the most recent financial report of the operations of the Commission.

Very truly yours,

J. HAROLD STEWART.

STATEMENT OF MAURICE H. LANMAN, JR., ASSISTANT GENERAL COUNSEL (FISCAL MATTERS); ACCOMPANIED BY HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING POLICY, DEPARTMENT OF DEFENSE

Senator KENNEDY. We have just received the statement of the Department of Defense on S. 3199. It has just been handed to me. None of us had had an opportunity to read it. Would you give me some idea——

Mr. LANMAN. Senator, as explained yesterday, the breadth and scope of the bill and the short time involved prevented us from giving you the type of analysis that you asked for yesterday. We have done our best today to prepare a statement which, in the main, discusses the major issues raised in this bill.

We have also brought with us, for purposes of inserting in the record, our detailed comments on Mr. Stewart's report,* which are the official positions of the Department of Defense with respect to many of the items covered by this bill, and intend to put that in the record.

(Comments of the Department of Defense on the task force report referred to were not entered in the record on this date. See p. 215.

Mr. LANMAN. We must say, however, that we have had no advice from the Bureau of the Budget or the President, with respect to approval of the comments which we have made on Mr. Stewart's report.

Senator KENNEDY. When do you think you could get that?

Mr. LANMAN. I don't know, sir. We have had no opportunity actually to submit other than our report on the Hoover Commission and to ask for approval.

Senator KENNEDY. I am not taking exception to you personally as I understand you are overloaded with work anyway, but this Hoover Commission report has been before us for about 10 or 11 months. I think it would be helpful to get the Bureau of the Budget and the Department of Defense and all other interested parties coordinated on a viewpoint which you could give us. We have some responsibilities. We do not want to act without making sure that we have everybody's viewpoint.

Mr. LANMAN. Mr. Chairman, our comments were delivered to the Bureau of the Budget in October 1955.

Senator KENNEDY. Have you heard from them on these comments?

Mr. LANMAN. We have not had any official advices, sir; and on this particular legislation, we have not submitted anything to them, since we have been attempting to prepare our position for the purpose of submitting it to them.

Senator KENNEDY. Is that customary—the statement you sent in in October—to have not received any answer?

Mr. LANMAN. Well, sir, as you pointed out, the Hoover Commission report was a very broad study and covered many complex subjects and our comments on them are substantial and complex.

Senator KENNEDY. Did you ask for or expect an answer back, or did you just send it in to them and then expect that they would get in touch with us?

Mr. LANMAN. I am not thoroughly familiar with the procedure under which the Hoover Commission's recommendations are being

*Second Hoover Commission's Task Force Report on Budget and Accounting.

handled within the executive branch. I do know that we were asked for our comments and filed them and that we have permission to discuss them so long as we make it clear that they have not been approved by the executive branch.

Senator KENNEDY. Well, we can talk this over when we get the representative of the Bureau of the Budget back up again. Will you go ahead, please.

Senator SYMINGTON. Mr. Chairman, may I make a request? I have to be at the opening of the morning session if I can, or very shortly thereafter, and this statement will take some 30 minutes to read—— and it might take longer than that. Would it be in order if I asked a couple of questions, please, on Mr. Stewart's report?

Senator KENNEDY. I think that will be helpful. After looking this over very completely, we might meet again on Monday and call you back to go over it in detail. We only have a very few minutes left. Perhaps the best procedure would be for you to go ahead, Senator Symington, and then have Senator Payne follow.

Senator SYMINGTON. Senator, would you yield?

Senator PAYNE.. Yes.

Senator SYMINGTON. Would you give me your name again, sir?

Mr. BORDNER. H. W. Bordner.

Senator SYMINGTON. How do you spell it?

Mr. BORDNER. B-o-r-d-n-e-r.

Senator SYMINGTON. You are what?

Mr. BORDNER. Deputy Comptroller for Accounting Policy.

Senator SYMINGTON. Accounting Policy?

Mr. BORDNER. Yes.

Senator SYMINGTON. And you work for Mr. McNeil?

Mr. BORDNER. Yes, sir.

Senator SYMINGTON. Have you anybody in your department named Lehrer?

Mr. BORDNER. Max Lehrer?

Senator SYMINGTON. How do you spell that?

Mr. BORDNER. L-e-h-r-e-r.

Senator SYMINGTON. What is his position?

Mr. BORDNER. He is not in my division.

Senator SYMINGTON. What is his title?

Mr. BORDNER. I am not certain——

Senator SYMINGTON. Will you supply it for the record?

Mr. BORDNER. Yes, we can supply it. (Title of Mr. Max Lehrer as supplied by Mr. Bordner: Director, Economic and International Security Estimates Division.)

Senator SYMINGTON. Let me ask this question. You heard Mr. Stewart's testimony with respect to accrued expenditures?

Mr. BORDNER. I heard part. We came in during his testimony.

Senator SYMINGTON. Well, as I understood it, the idea is that you only appropriate the money that you need to pay for what you get for the year in question and that you do not ask for the money for additional years. What do you think of that concept of a budget?

Mr. BORDNER. You are talking about a new concept of a basis of appropriations, an obligational authority which is not embodied in this bill.

Senator SYMINGTON. I am talking about his idea that the Department only ask for the money that it would pay out in the year in question for what it receives or what is in process of shipment.

Mr. BORDNER. We think that the idea has merit, if you accompany the idea of appropriations for accrued expenditures with the idea of obligational authority in terms of contract authority.

Senator SYMINGTON. What do you mean by what you just said?

Mr. BORDNER. Well, in other words, that we buy so much material and we construct public works with a long lead time that we need financial authority from Congress as a basis to obligate. We couldn't very well control our operations administratively, looking in advance to the future, without it. Neither could the Congress control it. So, you would have to have some supplemental advice, such as contract authority, to cover the financial——

Senator SYMINGTON. Mr. Stewart said he would agree to contractual authority as part of his plan.

Mr. BORDNER. Yes.

Senator SYMINGTON. But, that he would only recommend that money actually be appropriated to take care of expenditures of the fiscal year in question.

Mr. BORDNER. Yes.

Senator SYMINGTON. Now, that is one and two. Do you have the contractual authority?

Mr. BORDNER. That is right.

Senator SYMINGTON. But you only ask for and receive the money that you feel you would pay out for merchandise received in the year in question. What do you think of that plan? Would you be for it?

Mr. BORDNER. The idea has merit.

Senator SYMINGTON. Would you be for it?

Mr. BORDNER. Yes, if it is carried out right.

Senator SYMINGTON. How do you mean if it is carried out right?

Mr. BORDNER. If it is carried out with adequate planning and preparation for it, so that we do not have a period of chaos in getting started.

Senator SYMINGTON. How are you going to have any chaos if you have a good plan?

Mr. BORDNER. No plan is any good unless it is carried out right. The administrative problems of carrying it out internally are so great that you need a certain period of preparation in order to shift over. That is all I meant.

Senator SYMINGTON. Mr. Bordner, I am only asking for information and I want to get your opinion and I respect your opinion. You say that the idea has merit. Then I asked if you are for it and you say, "Yes, provided it is handled properly." Do you think it could be handled properly?

Mr. BORDNER. Yes.

Senator SYMINGTON. Would you recommend it as a procedure in the Department of Defense—would you recommend it to the Appropriation Committees?

Mr. BORDNER. We are willing to recommend it and have so indicated in this statement of the Department of Defense's views, over Mr. Wilson's signature addressed to the President.

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Senator SYMINGTON. Would you like to recommend it?

Mr. BORDNER. We don't think it is necessary.

Senator SYMINGTON. Why would you recommend it at all if you do not think it is necessary?

Mr. BORDNER. We think it has certain merit, not as much as has been represented. We believe that it would have merit from the standpoint of making clearer to the public, to everybody concerned, the nature of the carryover of funds.

Senator SYMINGTON. Do you think it is a better system?

Mr. BORDNER. It would cut down the carryover of funds, and the appropriations would be more in line with the expenditures from year to year, which are actually of primary attention in the balancing of the budget, year by year, anyhow.

Senator SYMINGTON. Do you think it would be a better system than the system you have or the system you have is a better system than the system recommended by Mr. Stewart?

Mr. BORDNER. We can do the same thing within the system that we have now, as far as cost control and control over accrued expenditures.

Senator SYMINGTON. Then, what you are saying——

Mr. BORDNER. We do not believe that as far as a margin of superiority is concerned, it is as great as has been represented, but there is some superiority to it. In fact, I would like to make the statement that Mr. McNeil prepared a memorandum on this subject for Senator Byrd, as far back as January 1953, and made the first proposal.

Senator KENNEDY. Do you have a copy of that memorandum?

Mr. BORDNER. We will put it in the record.

(The memorandum to Senator Byrd follows:)

INCREASING CONGRESSIONAL CONTROL OVER EXPENDITURES BY ADOPTION OF AN EXPENDITURE BASIS FOR APPROPRIATIONS

Many have expressed concern in recent years over possible weakness of congressional control over expenditures under the appropriation process. In one effort to strengthen its control over expenditures, Congress in section 638 of the Legislative Reorganization Act of 1946, set the annual task for itself of balancing the budget of receipts and expenditures, or of authorizing in advance a specific increase in the Federal debt to finance the indicated deficit. This is not now being done, although the importance of the objective is generally recognized.

Because appropriations are made simultaneously in terms of both obligational and expenditure authority and because obligations (especially for construction and major defense procurement and production) are authorized by appropriations for as much as 2 or more years in advance of expenditures, there is often little relation between the amounts appropriated for any given year and the expenditures estimated for that year. To most people, this confuses the problem of balancing the budget of receipts and expenditures.

Many legislators, as well as businessmen and other interested groups, have been concerned in the last 2 years over the effect on current expenditures of prior years' appropriations. For example, for the fiscal year 1954, estimated defense expenditures are somewhat greater than appropriations requested for new obligational authority, and there is a large carryover of unexpended appropriations for which obligations have been incurred requiring future expenditures. There is a natural desire in Congress to review the current status of these unexpended balances, including unliquidated obligations, to see if it is possible to rescind any part thereof without impairing the effectiveness of planned programs. It is extremely difficult for the Congress to grapple with this problem in the absence of voluminous current data. These difficulties are inherent because of the fluid state of procurement actions from month to month, the relatively long periods of production and deliveries after contracts are placed, and the relatively long period required by the entire budget review process. Data on this subject would not only be expensive and difficult to prepare; it would become out of date almost as soon as prepared.

There is not a universal awareness that the budgeting and appropriation process is a continuing one, and that it is impossible to review programs from a financial standpoint on the basis of one fiscal year at a time. In this respect the problem is most acute in the area of construction, procurement, and production, where the lead time required between order and delivery is 2 or 3 years. A given annual budget should always require consideration of the impact on future years' expenditures; it generally should involve consideration of current production and receipts of goods procured under prior appropriations with relation to current and future program requirements. Current budgets, which are presented with emphasis on future obligational authority, do not now clearly exhibit expenditure forecasts. A more extended discussion of this subject is presented in appendix B.

Neither is it always appreciated that some lead time in program planning is required in order to efficiently change the levels or volume of complex programs, especially with respect to procurement, production, and construction.

In connection with appropriation acts for the fiscal year 1953, certain expenditure limitations were established; others were proposed but not established. These limitations might better have been in the form of appropriations from the standpoint of administrative economy and simplicity, although this would have required development of a new concept of the basis of budgeting for the Federal Government.

There is set forth herein a proposal for consideration of an expenditure basis for appropriations with separate obligational authorizations for long lead-time expenditures for procurement, production, and construction. Some of the problems are set forth—there may be others. This is a complex subject in terms of congressional control, budget preparation and justification, financial administration, and actual operations. Details have been omitted from this discussion in order not to obscure major features of such a plan. In considering any plan relative to congressional control over expenditures, it must be recognized there is no completely satisfactory answer to the question of tight congressional control on the one hand, and on the other hand, necessary agency operating, latitude to meet changing conditions during the ensuing budget period.

There are those who will say that the addition of the concept of expenditure appropriations will not provide any additional congressional control over spending—that Congress may and should carefully consider expenditures in advance when undertaking through appropriations to authorize both obligations and expenditures. There is considerable truth in that view. Yet the fact remains, under present methods, the translation and consideration of budgets in terms of estimated obligations, into expenditure estimates are not fully understood, except by a limited number of people; and in the confusion, inadequate attention appears to be given to expenditure effects by fiscal years. If there is any merit in the proposed change in the appropriation basis from the standpoint of substantially clarifying and improving budget estimates (including expenditures) and the process of their review and evaluation, the change should be considered.

Appropriations in terms of expenditures, rather than obligations, are not new. The British have long employed that basis, and in the process have not exercised formal legislative control over obligations. Long experience in the United States, however, is generally convincing as to the need here for formal control over all obligations having a major impact on future years' expenditures.

It would be a disservice to the Congress if greater emphasis on expenditure budgets, and the making of appropriations in terms of expenditure, were to result in inadequate attention to and concern for obligational control of construction, procurement, and production. Past experience with the use of separate contract authorizations, without simultaneous provision for funding the expenditures thereunder to be incurred in future years, indicates the danger of the Congress adopting a lax attitude in considering long-term obligational authority alone and putting aside concern over the future expenditures.

OUTLINE OF CONCEPT

1. Good budgeting and planning starts with the determination of clear objectives as to the programs to be pursued, including rough evaluation of their cost as well as need. These determinations should be projected as far in advance as feasible, covering more than the next fiscal year. Changes should be made from time to time as basic conditions change. For example, in the military departments these basic determinations involve strength and composition of forces together with possible deployment and utilization, degree of modernization of equipment, levels of mobilization reserves of materiel, etc.

2. Based upon these determinations, more detailed determinations of certain basic long-term needs to carry out the program are required. For example, in the Military Establishment, these include construction of public works, ship construction, aircraft procurement, etc.

3. Upon the basis of these plans, annual budgets should be prepared in two basic parts, namely:

(*a*) Estimates of obligational authorizations required for all construction and procurement or production of major items to be undertaken beginning during the year, whether or not completed during the year or having a lead time of more than 1 year. Possibly such estimates should also include research and development work, because most of it is also of a long-term character. This part of the budget should also embody data on obligational authority previously granted to the extent expenditures have not been made. (See exhibits 1 and 2, appendix A.)

(*b*) Estimates of expenditures, separately divided between (1) those related to the obligational authority for construction and procurement or production of major items (see exhibit 3); and (2) those concerned with administration, operation, and maintenance, which are essentially of a short-term character and controllable on an annual basis. (See exhibit 4.)

That part of the budget concerning construction, procurement, and production is analogous to a budget for capital expenditures, as the term is employed in business enterprises.

More information with respect to the possible form of presentation of these estimates is furnished in appendix A.

4. Obligational authorization for construction, procurement, and production of major items (and possibly research and development) should be separately provide for the required lead-time. This budget would be separately justified, administrativey controlled, and accounted for based upon present concepts of control and accounting for obligational authority. The estimated and actual expenditures related to such authorizations, both with respect to past and future, would receive particular specific attention.

5. That portion of the expenditure budget relating to construction, procurement, and production (and possibly research and development), subject to separate obligational control as set forth in paragraph 4, would be estimated, justified, authorized, controlled, and accounted for in conjunction with the related obligational authority. Necessarily, such expenditures would be based upon amounts payable to contractors for materiel or work as delivered or completed, or upon advance and progress payments when required by contracts. Production in Government-operated plants would be financed under revolving funds pursuant to production orders in a manner similar to contracts with private manufacturers, in order to aid in achieving advantages of the most business-like methods of operation.

6. That portion of the expenditure budget relating to administration, operation, and maintenance would be estimated, appropriated, controlled, and accounted for generally in terms of accrued (applied) costs of services rendered and supplies consumed plus costs of increases in inventories of supplies (or minus costs of decreases in inventories). This basis would be equivalent on the whole to accrued or true expenditure; it would differ from the present basis of obligations incurred in the operating area only by the elimination of increases or decreases in supplies and services on order (see par. 7). However, in dividing such expenditure budgeting and accounting between applied costs and changes in inventory or stock levels, a new control point is added with respect to inventories, and it is made possible to more accurately estimate and to closely scrutinize budget estimates and actual performance in the administrative or operating area. Revolving stock funds would be used to finance common items of supplies chargeable when consumed to more than one appropriation.

7. It would be necessary for the Congress to provide each department or agency with authority to incur obligations for administration, operation, and maintenance as required to carry out the programs authorized for the ensuing budget year. While in the main, these required obligations would be the same as the budget estimates of expenditures, certain lead-time is required in placement of procurement contracts for operating and maintenance supplies and contracts for maintenance work for delivery or performance during a relatively short period after the end of the ensuing budget year. The budgets for expenditures for administration, operation, and maintenance, should be supplemented by estimates of requirements for such additional obligational authority which will result in expenditures in the fiscal year following the ensuing budget year.

8. The reporting of Government fiscal operations would be extended and made comprehensive to embrace all the operations of the departments and agencies of the Government. It would include the Treasury fiscal operations, but would not be confined thereto. In the process, expenditures would include not merely checks issued or paid, as the meaning of the term is now limited in the Treasury Daily Statement, but also liabilities for goods received and services rendered but not yet paid for, as reported by the departments and agencies. In addition, appropriation reimbursements would include not merely cash receipts, but amounts due and not yet collected, as reported by the departments and agencies. Moreover, the consolidated and agency financial statements would show the costs of inventories of stocks on hand of materials, supplies, and other goods acquired from appropriated funds for consumption or sale. These additional data are required in financial accounting in the departments and agencies for purposes of control; much of it is already available but is unused in overall Government reports. Indeed, it is important to recognize the impracticability of the agencies controlling their expenditures in terms of checks drawn on the Treasury, or checks paid by the Treasury. Moreover, it would be undesirable for the Congress to attempt to control expenditures in such terms rather than true expenditures; to do so would invite manipulation by the agencies to increase or decrease their apparent expenditures in any year merely by deferring payments of their bills from 1 year to another.

9. In order that Congress, especially through its committees may give more attention to long-term fiscal planning, Government budgets should include continuous, revised budget estimates for 2 years beyond the fiscal years for which appropriations are requested.

10. It would be desirable that all obligational authorizations and appropriations be of a continuing nature in order to simplify administration and accounting. In order to provide satisfactory congressional control such authorizations and appropriations would be accounted for as follows:

(*a*) Unexpended balances of appropriations for administration, operation, and maintenance would be determined by each agency at the end of each fiscal year, with inclusion of uncollected accounts receivable for reimbursements and deduction of accounts payable and other current liabilities for goods received and services rendered. Ninety days to six months might be allowed for this procedure. The amount of such unexpended balances would lapse, but the balances of the Treasury "cash" accounts, accounts receivable, and current liabilities for each appropriation account would be carried forward into the next year and combined with that year's related appropriation accounts. Each agency would make corrections in accounts receivable and current liabilities as they are settled, and determine thereby adjustments of the unexpended balances of the "lapsed" appropriations. Any accounts or claims not settled within a period of 2 years after the fiscal year of an appropriation would be canceled and made subject to settlement under the usual claims procedures. These procedures would avoid any carryover of funds for actual expenditure in a subsequent year—the same result as with annual appropriations.

(*b*) Unobligated balances of obligational authorizations and unliquidated obligations for goods on order would be carried in continuing accounts without lapsing, provided, however, that the annual additions to such obligational authorizations would be made only after an annual justification and evaluation by the Appropriations Committees of the then-current status of such authorizations. This review would be made simultaneously with, and as a part of, the review of the entire programs, including those proposed for the ensuing fiscal year for which new authorizations are requested and the balance of the current fiscal year. In this way, any indicated excesses would be rescinded, in effect, by deduction from the gross obligational authority requested, leaving the authorized additions for the ensuing fiscal year stated in a "net" amount.

(*c*) Similarly, unexpended balances and accounts payable under appropriations for expenditures for construction, procurement, and production, would be carried forward at the end of each fiscal year into the next year's account. Moreover, the annual review of the budgets for these expenditures would also include a review and evaluation of the unexpended balances of the current fiscal year in conjunction with the evaluation of projected estimates for the ensuing fiscal year in the light of actual and scheduled deliveries of major items or construction performance, with the end of making "net" appropriations for the ensuing fiscal year after deduction of any excessive balances of unexpended appropriations for the current year. In addition, each agency would be allowed only 2 years after completion (acceptance of delivery) of any contract to effect final settlement;

any unpaid balance on such contracts carried in the accounts of the agency would lapse at the end of each fiscal year, and the claims thereafter would be subject to settlement under the usual procedures.

(*d*) All unobligated, unexpended balances of appropriations "lapsed," as provided in (*a*) above, would merely be cancelled (figuratively described in the past as returned to the surplus fund of the Treasury). Any unpaid balances of accounts payable or similar claims, determined pursuant to (*a*) and (*c*) above would be transferred to the Treasury account for the settlement of certified claims.

11. Revolving funds, including funds of Government corporations, present a special problem in control. They would be much simpler to understand and control if their financial transactions were not consolidated with those under appropriated funds. Congress should expect to control these operations through expenditure appropriations for increases in required capital and reimbursements for losses, if and where authorized, recognizing that obligational authorizations and expenditure appropriations of the various "customer" agencies provide a control over the costs of goods or services provided through the operations of such funds. Gains, if any, should be required to be transferred to the Treasury as receipts. Consideration should be given to eliminating loans to Government corporations from the Treasury and providing the required capital only by appropriation. Excess capital as it is determined should be returned as Treasury receipts. An additional type of control (analogous to contract authorizations) in the form of limitations of loans committed and outstanding, or inventories on hand and on order, might be desirable, to the extent it can be established without destroying necessary administrative flexibility. However, on this basis, expenditure appropriations still would not cover the turnover in revolving funds of accounts receivable, loans, and inventories acquired for resale (rather than use); but there is no good reason why they should be; and to establish such control would be incompatible with the reason for the existence of revolving funds.

12. The question of classifications of accounts for appropriations and budget activities is very much at issue in consideration of any plan for improved congressional control. Furthermore, considerable improvements in classification are necessary to facilitate more intelligible presentation of budget estimates and financial reports in terms of the programs, functions, and activities of the several agencies. It is believed that a better classification of programs, functions, and activities, and the special emphasis proposed for construction, procurement, and production, would permit the reduction of the number of appropriations and the utilization of informal and flexible controls of expenditures between subclassifications by the Appropriations Committees and the Bureau of the Budget in the manner presently followed.

13. This plan recognizes that responsibility for exercising financial controls over obligations and expenditures, pursuant to congressional authority, rests in the respective departments and agencies, subject to the overriding supervision of the President of the United States with the assistance of the Director of the Bureau of the Budget. In this respect, it is already generally recognized that the Treasury is unable to, and does not in fact, control expenditures through its position as the banker for the departments and agencies.

14. From the standpoint of congressional control, the plan would not be complete without recognition of the requirement for audits by the General Accounting Office of the operations, accounts, reports, and methods of financial control of the departments and agencies. This type of auditing must be performed in the offices of the departments and agencies—old-fashioned methods of auditing accounts of disbursing officers are inadequate. The General Accounting Office has already adopted substantially such a view, and terms the new approach to auditing, "comprehensive audits." Neither would the plan be complete without providing for greater congressional attention, through its committees, to what is currently happening in the departments and agencies, especially as disclosed by their reports and the General Accounting Office. In this connection vastly improved reporting is a prerequisite.

CONGRESSIONAL ACTIONS

Congressional actions which would provide the basis of financial control would include the following:

1. The Appropriations Committees of the House and Senate would continue to review the budget estimates, submitted with all appropriation bills, in terms

of obligations as well as expenditures upon the basis above outlined. This is a basic feature of financial control of expenditures by the Congress. It is hoped, however, that improved budgets and reports, together with improved financial administration in the departments and agencies, might facilitate and shorten the review process.

2. Each annual, supplemental, or deficiency appropriation act would be divided into 2 parts, corresponding to the 2 parts of the budget previously described, as follows:

(*a*) Part I would consist of obligational authorizations in addition to those previously granted, for contruction, major procurement, and production (and possibly research and development). It would authorize the incurring of all obligations of this character, both long term and short term, to carry out the programs approved for the specific department or agency. This part would not cover provision for financing the contracts. This part of the act might also be used to provide authority to incur obligations under the programs for administration, operation, and maintenance during the budget year (see par. 7, p. 4).

(*b*) Part II would provide appropriations in terms of expenditures, on the basis hereinbefore outlined, in two subdivisions, as follows: (1) Expenditures for the fiscal year under all long term contracts placed in previous years and all contracts placed during the same fiscal year, pursuant to obligational authorizations for construction, procurement and production (and possibly research and development) (see pt. I); and (2) expenditures for the fiscal year for administration, operation, and maintenance.

3. The Congress would continue to exercise additional expenditure control through such specific, continuing, basic laws as the Antideficiency Act.

4. The congressional Committees on Appropriations and Expenditures (Government operations) would continue to review the operations of the departments and agencies (see par 14.)

PROBLEMS

As will doubtless be appreciated, there are many complicated problems requiring investigation and resolution before deciding to embark on some such plan as outlined. This probably cannot be done in less time than a year, and it would take longer if there is not great pressure. Implementation of such a plan would take a longer period.

Some of the major problems involved in this plan are set forth below:

1. Difficulty of estimating expenditures for construction, procurement, and production. This has heretofore been considered the major stumbling block in establishing expenditure limitations or controls. It has been extremely difficult to estimate in advance with any degree of accuracy and in specific terms what contracts will be placed in any year. It is much more difficult to forecast expenditures by each budget activity—present estimates of total expenditures for any individual budget activity tend to be misstated. It is extremely difficult to predict specific delivery schedules of items which are subject to the performance of a myriad of contractors and to the consequences of contingencies such as the recent steel strike and to satisfactory chain performance by subcontractors, such as machine tool manufacturers. Not the least of the problems in long-term forecasting of deliveries are those resulting from the necessity of planning for procurement of items not yet developed or designed, and the production delays which follow the general policy of not freezing specifications long enough to get production volume. Moreover, many major producers require advance and progress payments related to their financial outlays under their contracts, rather than to deliveries—the relative extent of such payments is difficult to forecast. However, in this respect the Department of Defense has made great progress in improving projected detailed delivery schedules by major items as a basis for estimates of contract requirements. It would require study of the feasibility of the problem of adapting these data to forecasting expenditures by fiscal year before being sure of the absolute feasibility of the plan. It is, of course, impracticable to make these estimates for all items of material; only the major items can be considered individually—all others must be lumped, at least by categories.

2. The technical format of budget estimates and accounting reports, for presentation to the Congress for the purposes of justifying requests for obligational authority and expenditure appropriations, would require development. This also is required in order to permit intelligent appropriation action.

3. There would be a considerable change in administrative practices in budgetary control and accounting, as well as in preparing budget estimates.

Some of these changes would require time to consumate. It would be necessary to make these changes on a continuing and progressive basis. These matters involve Treasury accounting and reporting, as well as agency practices, such as appropriation and allotment accounting and reporting, financial accounting for inventories of materiel, and accounting for accounts payable for expenditures and accounts receivable for reimbursements. However, these improvements are all long overdue. In this connection, the greatest administrative problem would concern the control of spending under long-term contracts for construction, procurement, and production. Ill-timed or unduly complex changes in methods of financial control over procurement might disrupt procurement progress or result in higher prices to the Government.

4. A program of education would be required both in the executive and legislative branches of the Government if the system were to be intelligently used.

5. The precise language to be recommended for use in appropriation bills would require study, especially with reference to obligational authorizations and the appropriation classifications.

6. Extensive changes (or a blanket change) in a myriad of related general statutes would be required.

PROCEDURE

If such a proposal is considered worthy of further exploration, the Comptroller General and the Director of the Bureau of the Budget might be asked to explore it in collaboration with such congressional committees and major executive agencies, as may be deemed desirable, for the purpose of determining its feasibility and desirability, and recommending a further course of action. If found to be feasible and desirable, solution of the problems involved therein might be worked out by the same group.

Appendix A

There are attached hereto 4 exhibits which roughly illustrate 1 possible form of summarizing the presentation of budget data under the proposed plan for making appropriations on the basis of expenditures and separating obligational authorizations for construction, procurement, and production.

Exhibit 1 sets forth data with respect to the status of obligational authorizations for construction, procurement, and production carried over from the last complete fiscal year and authorized in the current fiscal year not yet expired, with estimates for additional authorizations required for the ensuing fiscal year and estimates of contracts and orders to be placed in the current and ensuing fiscal year. It is assumed that no authorizations will be requested for contracts or orders to be placed beyond the end of the ensuing fiscal year; such requests would be made in connection with the next year's budget. Further information relative to the basis of obligational authorizations and accounting therefor is contained in pages 3 to 6 of the outline of the proposed plan. In particular, see paragraphs 3 (a), 4, 5, and 10 (b).

Exhibit 2 sets forth related actual and estimated data on contract authorizations with respect to the status of unfilled contracts and orders placed for construction, procurement, and production. Exhibit 2 (and also exhibit 3) should be reviewed in conjunction with exhibit 1. Together they provide a complete budget for what might be termed "capital expenditures" in business enterprise.

Exhibit 3 sets forth related actual and estimated data for expenditures for construction, procurement, and production in relation to appropriations carried over from the next to the last complete fiscal year, appropriations in the current fiscal year not yet expired, and appropriations requested for the ensuing fiscal year.

Exhibit 4 sets forth actual and estimated data on appropriations and expenditures for administration, operation, and maintenance for the last complete fiscal year, the current fiscal year not yet expired, and the ensuing fiscal year. Further information is contained in pages 3 to 6 of the outline of the proposed plan. In particular, see paragraphs 6 and 7, page 4.

Exhibit 5 is a sample worksheet which might be used to provide supporting data for exhibits 1 to 3 inclusive, with reference to each of the major items to be procured involving a significant amount. A similar worksheet for construction projects could be readily devised.

Exhibit 6 shows the format of balance sheets setting forth the assets and liabilities of each appropriation account at the end of a fiscal year. Interim balance sheets during a fiscal year would be slightly more complex as required in order to provide certain necessary budget controls.

Exhibit 1

DEPARTMENT OR AGENCY

Contract Authorization and Orders Placed

Construction, procurement, and production

Classification	Fiscal year 1952 (actual)				Fiscal year 1953 (estimated)			Fiscal year 1954 (estimated)		
	Prior years' balance available	Additional authorization	Contracts and orders placed	Amounts canceled or expired	Prior years' balance available	Additional authorization	Contracts and orders to be placed	Prior years' balance available	Additional authorization	Contracts and orders to be placed

Exhibit 2

DEPARTMENT OR AGENCY

Status of Contracts and Orders Placed

Construction, procurement, and production

Classification	Fiscal year 1952 (actual)				Fiscal year 1953 (estimated)			Fiscal year 1954 (estimated)			
	Unbilled balance of prior contracts and orders—beginning of year	Contracts and orders placed (net)	Amounts billed for work completed or advances made	Adjustments of contract balances (amounts lapsed)	Unbilled balance of prior contracts and orders—beginning of year	Contracts and orders placed (net)	Amounts billed for work completed or advances made	Unbilled balance of prior contracts and orders—beginning of year	Contracts and orders placed (net)	Amounts billed for work completed or advances made	Unbilled balances of contracts carried forward

EXHIBIT 3

DEPARTMENT OR AGENCY

SUMMARY OF APPROPRIATION ACCOUNTS

Class A—Construction, procurement, and production

Classification	Fiscal year 1952 (actual)				Fiscal year 1953 (estimated)			Fiscal year 1954 (estimated)		
	Unexpended balance from prior years	Appropriation [1]	Expenditures (net)	Lapsed	Unexpended balance from prior years	Appropriation [1]	Expenditures (net)	Unexpended balance from prior years	Appropriation [1]	Expenditures (net)

[1] Amounts shown opposite respective budget activity classifications represent portion of each total appropriation assigned thereto.

EXHIBIT 4

DEPARTMENT OR AGENCY

SUMMARY OF APPROPRIATION ACCOUNTS

Class B—Administration, operations, and maintenance

Classification	Fiscal year 1952 (actual)					Fiscal year 1953 (estimated)					Fiscal year 1954 (estimated)		
	Costs	Reimbursements	Net costs	Appropriation [1]	Amount lapsed	Costs	Reimbursements	Net costs	Appropriation [1]	Amount lapsed	Costs	Reimbursements	Net costs
Appropriation head—B1													
Budget activity—B1a													
Budget activity—B1b													
Budget subactivity—B1b (1)													
Budget subactivity—B1b (2)													
Increase in inventories of supplies													
Total													
Appropriation head—B2													
Etc													

[1] Amounts shown opposite respective budget activity classifications represent portion of each total appropriation assigned thereto.

EXHIBIT 5

DEPARTMENT OR AGENCY

WORK SHEET SUPPORTING REQUEST FOR CONTRACT AUTHORIZATIONS AND APPROPRIATIONS FOR EXPENDITURES—FISCAL YEAR 1954

Item—Jet fighter—Type F86 (d)

	Number of units	Estimated cost		Analysis of contract authorizations					
		Per unit	Total amount	Previous estimated authorization		Adjustments		New contracts	Total new authorization
				Units	Total cost	Rescheduling	Price changes		
Total quantity planned on hand (date)									
Goals at June 30, 1954:									
On hand									
On order									
Total									
Analysis of "on order":									
Balance June 30, 1952									
Orders to be placed fiscal year 1953 (estimated)									
To be delivered fiscal year 1953 (estimated)									
Balance June 30, 1953									
Orders to be placed fiscal year 1954 (estimated)									
To be delivered fiscal year 1954 (estimated)									
Balance June 30, 1954									
Analysis of "on hand":									
Balance June 30, 1952									
To be received fiscal year 1953									
To be consumed or expended fiscal year 1953									
Balance June 30, 1953									
To be received fiscal year 1954									
To be consumed or expended fiscal year 1954									
Balance June 30, 1954									

	Appropriations for expenditures					
	Total amount	By fiscal years				
		1952 and prior (actual)	Estimated		Total	Deferred until 1955 and thereafter
			1953	1954		
Deliveries to be made:						
Fiscal year 1953						
Fiscal year 1954						
After fiscal year 1954						
Total						
Amounts included in prior years' appropriations						
Amount requested for fiscal year 1954 (including adjustments of prior years' estimates)						

EXHIBIT 6

DEPARTMENT OR AGENCY

BALANCE SHEETS OF APPROPRIATED FUNDS

FISCAL YEAR END

DESCRIPTION	*Appropriations* (Use as many columns as necessary, 1 for each)
Assets (excluding inventories):	
Undistributed balance in Treasury	
Accounts receivable for reimbursements:	
Intradepartmental	
Interdepartmental	
Other	
Total accounts receivable	
Total assets	
Liabilities:	
Accounts payable and accrued expenditures:	
Intradepartmental	
Interdepartmental	
Other	
Total	
Unexpended balance carried forward to next year (applicable only for construction, procurement, and production	
Unbilled balances of contracts and orders placed (including those unfunded)	
NOTE.—Inventories of materials and supplies financed under respective appropriations	

APPENDIX B

IMPORTANCE OF PRODUCTION LEAD TIME IN BUDGET CONSIDERATIONS

Present budgets fail to indicate clearly the scope and financial activity of the budget programs carried on in a given fiscal year; moreover in their present form, they tend to obscure the true annual costs of program performance and the financial impact of budget programs upon the Federal budget. This is so largely because of the current practice of presenting budget programs on the basis of obligations, with the result that very little attention is given to program expenditures.

It needs to be recognized that annual budget programs—especially those of a long-term character such as major procurement production, and construction—cannot be appraised properly from a financial standpoint solely in terms of obligations. A good appraisal of these programs can be made only in terms of their expenditures, and adequate consideration of expenditures requires that these programs be viewed on the basis of 2 and 3 years at one time. This is necessary because appropriatious generally are not expended until deliveries are received (except as contractors require progress and advance payments to finance production), and it takes as long as 3 years for many items to be delivered after they are ordered.

The long lead time inherent in the production of most types of military equipment is largely respousible for this situatiou. Lead time influences delivery schedules perhaps more than any other factor. It plays a dominant role in the programing of all military procurement determined to be required; and it is

the greatest single factor responsible for delaying the expenditure of appropriations.

Lead time, after contracts are placed, in the production of such complex items as planes, tanks, ships, and guns includes the time a contractor must devote to redesigning components for production, making drawings, designing tools, laying out production lines, setting up sources of supply, ordering and obtaining delivery of materials, components, and manufacturing tools and equipment, and even to hiring personnel. Sometimes it may include time required in original design of some components. It is a common practice to give only performance specifications of components and require the manufacturer to develop the item. Moreover, frequent changes in specifications of components during production are common. Lead time also includes the time required by the mills to roll, shape, or fabricate the metal ordered by the contractor and the time of subcontractors in producing and furnishing components or subassemblies. All of these steps are time consuming. A few can and are performed concurrently, but most of them occur in sequence.

Changes or disruptions in any link of this complicated chain of operations can result in interminable confusion and delayed deliveries. For continuing production there must be kept filled a pipeline of components, parts, and materials adequate to sustain the scheduled production of end products. For this reason, deliveries of long lead-time items must be carefully planned many months in advance. Contractors and subcontractors must make similar plans. The development of delivery schedules requires consideration of priorities, military production capacity of industry, estimates of contractors' engineering and production lead-time, as well as estimates of available materials, tools, plants, and manpower over a 2- or 3-year period. Despite the most carefully laid plans, such unforeseen things as labor strikes, work stoppages, shortages of critical materials, changes in production specifications, and even changes in military priorities cause frequent revisions in delivery schedules.

The lead-time required for most military items is longer today than ever before in the history of military procurement. The complexity of military equipment and the heavy procurement demands placed on a partially mobilized industrial base are largely responsible for this situation.

Today's equipment is far more complex than any heretofore and requires considerably longer engineering and production periods—for example, some modern fighter aircraft require 20 times more engineering time than their World War II counterparts. Moreover, this equipment is becoming increasingly more complex each day through the introduction of the latest technological improvements into production designs. The imposition of heavy military requirements on a partially mobilized industrial base—one continuing to produce large quantities of civilian goods—also has added heavily to the lead-time required. Again, under the policy of expanding the industrial base, with procurement being placed with several and more contractors, it is not always possible to obtain the short lead-time benefits characteristic of mass production.

Because this lead-time usually extends over a considerable period, most of the major items of military equipment must be ordered 2 or 3 fiscal years before they are scheduled for delivery. The prime contractors and their subcontractors must have firm contracts as a basis for making their commitments and undertaking production. Such firm contracts cannot be placed except as authorized by the Congress under the appropriation process. This lag time between orders and deliveries causes a similar lag in expenditures after obligations are incurred. Except as advance and progress payments are made to contractors to aid in their financing, it can be said that obligations represent contracts placed and expenditures represent deliveries received.

It is important to recognize that the lead-time involved in major procurement, production, and construction programs has the effect of deferring a considerable part of the expenditure impact of these programs to 2 and 3 subsequent years. It is important also to recognize that this deferment results in lengthening the budget cycle for these programs so that as many as 3 fiscal years overlap. Hence, the expenditure impact in a given year is not just the expenditures to be made under current budget programs, but rather the cumulative sum of all expenditures to be made in that year under the active budget programs of at least 3 fiscal years—those of the 2 preceding fiscal years and those of the current fiscal yar.

From the standpoint of the Government's financial program (the balancing of the budget of receipts and expenditures) and congressional control of expendi-

tures, it is important for this 3-year period to be viewed as a single time span in considering annual budget programs. This is especially important because control of expenditures is exercised best through control of obligational authority (appropriations or contract authorizations).

Appraisal of these programs, once they are established, requires answers to such questions as:

(1) How much of the unexpended balances (unfilled contracts represented by equipment in various stages of engineering and production) of prior years' appropriations will be expended in the current year? How much in each subsequent year?

(2) How much will be expended in the current year under new obligational authority requested in the current budget? How much in each subsequent year?

(3) How much will be expended under future budget programs in the same future years as overlap those affectd by (1) and (2) above?

The answers to these questions would rqeuire:

(1) Analysis of the status of all items on order to determine the quantity and unit cost of items to be dclivered in the current year and each subsequent year.

(2) Determination of the impact of expenditures for these deliveries by fiscal years, considering advance and progress payments, where anticipated.

(3) Appraisal of available production capacity in light of (1), above, and other possible sources of supply, for the orders to be placed in the current year; and determination of the quantity and unit cost of the items to be delivered and year of delivery. (Expenditures for these dliveries to be made from appropriations requested in the current budget.)

(4) Estimates of additional future program requirements, after consideration of available production capacity and contractors' abilities to deliver the items required; and determination of the quantity and unit cost of the items to be delivered, including year of delivery. (Expenditures for these deliveries to be made from appropriations to be requested in future budgets.)

(5) Estimates of upward or downward adjustments in prices of contracts (both contracts already placed and those to be placed) by fiscal year of expenditure—these estimates should cover the same number of fiscal years as other estimates.

The sum of the expenditures estimated for each fiscal year, as developed from the above analyses represents the total estimated expenditure impact for each of those years. This appears to be more mathematical than actually is the case. These estimates are the results of a continuous cycle of planning, programing, scheduling, adjusting and balancing of mutually supporting requirements with the production capabilities of industry. Each program supports the others and a balance is maintained in the proportionate effort that each bears to the whole.

The effect of lead-time upon appropriation expenditures is illustrated in the attached chart.

Although the aircraft procurement program illustrated in the attached chart is a hypothetical one, it is fairly typical of the financial activity of long-term military procurement, production, and construction programs for which the bulk of military dollars are spent. The expenditure activity of this program exemplifies the impracticability of viewing annual programs, from a financial standpoint, on the basis of obligations and on the basis of 1 fiscal year at a time.

Effect of lead-time on appropriation expenditures, aircraft procurement program

[In millions of dollars]

Appropriations		Fiscal year in which appropriations are expended															
Fiscal year of budget program and appropriation	Amount appropriated and obligated [1]	1951		1952		1953		1954		1955		1956		1957		1958	
		Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance
1951	130	20	110	30	80	80											
1952	150			20	130	35	95	95									
1953	100					10	90	15	75	75							
1954	[2] 80							10	70	20	50	50					
1955	70									5	65	15	50	50			
1956	60											5	55	10	45	45	
1957																	
1958																	
Total	600	20	110	50	210	125	[3] 185	[2] 120	[4] 145	100	115	70	105	60	45	45	

[1] To simplify presentation, all appropriations are shown, as having been obligated (i. e., orders and contracts placed) in the same fiscal year in which the appropriation is granted. In actual practice, minor amounts usually are unobligated at the end of the fiscal year and in the case of continuing appropriations (appropriations available until expended) these unobligated balances are carried forward into the ensuing fiscal year.

[2] Although only $80 million were appropriated in fiscal year 1954, $120 million were expended. This is largely because the balance ($95 million) of the aircraft ordered in 1952 was delivered and a portion ($15 million) of the aircraft ordered in 1953 was also delivered in this year. The $10 million expended under the 1954 appropriation represented, for the most part, advance and progress payments to contractors.

[3] At the end of fiscal year 1953, $185 million in appropriations were unexpended—$95 million of the 1952 appropriation and $90 million of the 1953 appropriation. This unexpended balance represented aircraft, in various stages of engineering and production, ordered under contracts placed in 1952 and 1953.

[4] At the end of fiscal year 1954, an unexpended balance of $145 million ($75 million of the 1953 appropriation and $70 million of the 1954 appropriation) was carried forward into subsequent years and expended in 1955 and 1956, the years in which the aircraft were delivered.

75661—56——8

Senator SYMINGTON. Let me ask this question. I want to be sure I understand. You are willing to put this in but you think the present system you have does the job?

Mr. BORDNER. Yes.

Senator SYMINGTON. Is that true?

Mr. BORDNER. Yes.

Senator SYMINGTON. If you put this system in it would require a great deal of work, would it not, in changing the policies of the Department, and a great deal of man-hours?

Mr. BORDNER. Yes, but there are other changes that are being made now in the same direction.

Senator SYMINGTON. Let me ask the question and you answer it, because we do not have too much time.

Mr. BORDNER. Yes.

Senator SYMINGTON. Then if the present system works as well as the system proposed and the system proposed would require a great deal of money and time to put in, what you are really saying is that you would rather stay with the system you have now, would you not?

Mr. BORDNER. Well, if you would qualify the present system with improvements, such as we propose in this bill——

Senator SYMINGTON. You would like some improvements?

Mr. BORDNER. We need improvements within the present system.

Senator SYMINGTON. Now, let me go back to this question of contractual authority as against expenditures. We talk a lot about appropriations and about the ability to shorten lead time. Would one of the disadvantages of the system recommended by Mr. Stewart be that you could not reduce your appropriations on the basis of theoretical reductions in lead time?

Mr. BORDNER. I do not know what effect it would have on lead time. I do not think it has anything to do with it.

Senator SYMINGTON. If you have appropriations only for the money you are going to spend and you cut your budget in 1956 or any particular year by shortening the lead time, you could not do that as a method of balancing the budget, for example, if you did not have any lead time to shorten. Is that a fair statement?

Mr. BORDNER. No, I do not think it is.

Senator SYMINGTON. I want to know—I am asking for information.

Mr. BORDNER. I think it should be recognized we already budget on the basis of expenditures, although Congress does not control on the basis of expenditures and, as you know, the balancing of the Federal budget, or the determinations of the annual surplus or deficit, are made on the basis of expenditures.

Senator SYMINGTON. That is right.

Mr. BORDNER. And there is a great deal of informal internal control over the rate of expenditures which affects the scheduling of work under contracts and all that sort of thing, so that once the executive branch of the Government and the Secretary of Defense have made commitments as to what the level of expenditures is going to be for defense for a year in advance, everything has to be done that is necessary administratively to hold these expenditures within that line.

Senator SYMINGTON. Let me ask the question in a different way and then one more question and I am through. I am grateful for your kindness and consideration. In 1953, the budget was heavily cut in

the Department of Defense, some $7 billion, including 5 billion out of the Air Force, as I remember, in about April or May of 1933, going into the 1954 fiscal setup.

Now, at that time, much of that cut was justified on the basis that we were reducing lead time, inasmuch as obligational authority beyond the year in question was considered part of your obligation. Now, that is again being done this year, as we understand it. You are reducing the lead time again and I thought both times we have used the expression, "one-shot lead time reduction."

My point is that you would eliminate that automatically would you not, if you followed Mr. Stewart's concept and said that you were going to have contractual authority but you would only actually ask the Congress for the money that you expected to spend in the year in question and at the last part you had to come in for supplemental, that would be an addendum to the plan. Does that make sense?

Mr. BORDNER. Well, I do not think that I should attempt to answer the question for the Assistant Secretary of Defense Comptroller because the budget end of the business is not my side of it, and I am not familiar with the budget action in 1953.

Senator SYMINGTON. Do you think he is in position to answer?

Mr. BORDNER. As far as the 1953 actions are concerned, I am not acqainted with that.

Senator SYMINGTON. Do you think that he would answer it for us?

Mr. BORDNER. I assume so.

Senator SYMINGTON. Is it a matter of policy?

Mr. BORDNER. I do not know.

Senator SYMINTON. Would you ask him to read the record and furnish the chairman and the subcommittee an answer to the question?

Mr. BORDNER. Yes.

(The information requested follows:)

ADJUSTMENTS TO DEPARTMENT OF DEFENSE BUDGET REQUESTS FOR FISCAL YEARS 1954 AND 1957

The initial fiscal year 1954 budget request for the Department of Defense submitted to the Congress in January 1953 called for total new obligational authority of $41.3 billion—$12.1 billion for the Army, $11.4 billion for the Navy, $16.8 billion for the Air Force and $1 billion for interservice activities. In early May 1953, after 3 months of intensive review of these budget requests, revised estimates for fiscal year 1954 were submitted to the Congress. These called for total new obligational authority of $36 billion—$13.7 billion for the Army, $9.7 billion for the Navy, $11.7 billion for the Air Force, and $1 billion for interservice activities. The Congress provided $34.5 billion—$13 billion for the Army, $9.4 billion for the Navy, $11.4 billion for the Air Force, and $.8 billion for interservice activities.

Reduction in procurement lead time was only one of the factors, although a very important factor, in revision of the fiscal year 1954 budget request. The basis of the revisions was outlined in Secretary Wilson's testimony in May 1953 before the House Appropriations Committee as follows:

"Our intensive study of the requirements of the Department of Defense, taking into account appropriations that had already been made, led us to the conclusion that significant reductions could be made in the fiscal year 1954 Defense budget by institution of more realistic requirements, better planning, and more efficient utilization of manpower and other resources. Our review quickly indicated that the provision of equipment, the construction of bases, and the training of personnel were out of phase in some respects. By careful balancing of equipment, facilities, and manpower, improved military strength could be achieved on a common front without spending quite so much money. Our review also made it perfectly clear that the military forces and stocks of mobilization reserves which previously had been held out as a goal could not be attained within the time

contemplated and within the concept of a reasonable balance between Federal expenditures and revenues."

Somewhat more detail on the budget adjustments were contained in the statement of the Assistant Secretary of Defense (Comptroller) before the same committee, as follows:

"In comparing the present request of $36 billion with the $41.3 billion request submitted in January two important differences must be noted:

"(1) The current request provides for equipping and maintaining an increased number of ROK divisions in fiscal year 1954.

"(2) The current request provides financing for continuation of combat consumption in Korea throughout all of fiscal year 1954. As a consequence, advance financing is provided for the estimated combat consumption of supplies and equipment during fiscal year 1954, with ammunition financed for an additional 9 months of lead time into fiscal year 1955—6 months at combat consumption rates and 3 months additional lead time phased down to sustaining rates. Funds are also provided in advance for combat-duty pay and other additional personnel aud operating costs arising from combat operations.

"In contrast, the budget request submitted in January 1953 did not make full advance provision in all areas for additional operating costs that might result from continuation of combat operations in Korea during fiscal year 1954. In the specific case of ammunition, the January budget request covered combat consumption rates through December 31, 1953, and it was stated in the budget document:

> "'Additional funds may be required for fiscal year 1954 to cover the combat consumption and attrition of ammunition and military equipment, particularly if it apears that combat in Korea will continue beyond December 31, 1953.'

"As was stated in earlier discussions with this committee, the inclusion of ammunition requirements at authorized combat rates to December 31, 1953, was predicated on the assumption that a restudy would be made in March of 1953. The current action of extending the financiug period at authorized rates was the result of this restudy.

"If provision had been made in the January request for equipping and maintaining additional ROK divisions and for full advance financing of combat operations through fiscal year 1954, the Jauuary request would have had to be increased by approximately $2 billion to a total in excess of $43 billion. Consequently, on a comparable basis, there is a difference of approximately $7 billion between the initial and revised budget requests.

"This reduction results from a number of factors. Certain adjustments have been made to reflect several months additional experience with reference to actual production rates and rates of obligation and expeuditure. Other adjustments stem directly from the decision to reduce the numbers of military and civilian personnel in the Department of Defense. Other adjustments are the result of changes in iuterim force and readiness goals based upon elimination of the assumptiou for a specific date for D-Day readiness. The continuing examination of end item requirements, together with further evaluation of stock levels and quantities of materiel on order but not delivered resulted in numerous changes.

"Next, other adjustments were possible because of the size and character of the unexpended carryover funds amouuting on June 30, 1953, to approximately $63 billion, of which something in excess of $6 billion will be available for obligation in the next fiscal year, part of which has already been placed in reserve for that purpose. Still further adjustments were made by the Secretary of Defeuse in anticipation of savings that we expected to be achieved during the coming fiscal year by the progressive elimination of waste, inefficiency, and imbalance and by reducing procurement of soft goods and miscellaneous supplies and equipment to the minimum essential levels."

With respect to the fiscal year 1957 budget, the reductions in the initial requests of the military departments resulting from careful consideration of a number of factors, including the further reduction of procurement lead times. These adjustments affected both the total new obligational authority required for fiscal year 1957 and the estimated expenditures during 1957. If we budgeted on an expenditure basis, it would be necessary to revise the amounts requested of the Congress to the extent that the program adjustments made during the review of the budget affected anticipated expenditures in the immediate budget year.

Senator SYMINGTON. Incidentally, I would like to ask one more question along these lines. Yesterday when we had a witness in here, and I think Mr. Lanman was here at that time, we talked about certain items where once you had agreement that the item was to be built, you did not have to come back for any further justification. Do you know about that in your position?

Mr. BORDNER. Yes, under the present method of making appropriations in terms of obligational authority.

Senator SYMINGTON. What items are involved?

Mr. BORDNER. You do not have to come back and rejustify for the purpose of expenditure.

Senator SYMINGTON. What items are involved where money carries over a 12-month period?

Mr. BORDNER. Well, the procurement and production of all types of major items of materiel.

Senator SYMINGTON. Like what?

Mr. BORDNER. Ships, aircraft, guns, tanks, and things of a military nature, machine tools, production equipment, and so forth, construction of public works, research and development programs.

Senator SYMINGTON. All of that you can program out beyond the 12-month period?

Mr. BORDNER. Yes.

Senator SYMINGTON. What do you do if the cost increases? Are there any items where you do not have to come back for a request for increased amounts of money to take care of increased costs or are all items in the military budget, items where you have to come back and request additional money in case you made a mistake in the original estimate of the cost of the items in questions?

Mr. BORDNER. Well, of course, our programs are very broad under our appropriations, and we do not have to work on the basis of item by item.

Senator SYMINGTON. Let's take a typical illustration.

Mr. BORDNER. You work on a basis of a broad program and you must have a continuing rejustification year after year, and if you need more money on account of mistakes in cost estimates, that gets picked up in your following year's appropriations.

Senator SYMINGTON. So long as we understand each other, but suppose you ordered 100 bombers for $8 million apiece, and then after the order is in process, we find that those bombers are going to cost $10 million apiece, do you have to come back to the Congress and ask the Congress to give you another $200 million or can you go ahead with completion of the order and simply bill the Treasury for the additional money?

Mr. BORDNER. You cannot place a contract for a sum beyond the amount of the obligational authority that you have. You may readjust your program so that if you want to place the contract in full at the higher cost——

Senator SYMINGTON. I am not talking about that. I am talking about the fact if you make a mistake in estimated cost on the down side and you need more money to complete, say, 100 bombers, do you have to come back and request that money from the Congress or do you simply proceed without further request?

Mr. BORDNER. Mr. Lanman, do you want to say anything?

Mr. LANMAN. I was just saying, Senator, to the extent that you did not have the difference in your no-year appropriation, you would have to come back to the Congress and request additional money to cover that contract.

Senator SYMINGTON. Let me get this straight. If you have $800 million appropriated for 100 bombers and you find out it is going to cost a billion, you cannot spend the additional 200 million without further approval authorization and appropriation approval of the Congress; is that correct?

Mr. LANMAN. The 800 million, Senator, would have been included in your total aircraft appropriation.

Senator SYMINGTON. When you justified before the Congress, you did not pool it in one sum, but you said, "We want $800 million for these planes." I am not talking about an adjustment of the 5 percent or whatever the figure is. What do you do if you need 200 million more on those bombers because you made a mistake or because you had an engineering design changed or for any reason? Do you come back and get additional authorization from the committees in question of the Congress?

Mr. LANMAN. For the obligational authority necessary to change that contract upward, again providing that you are not doing any reprograming in your no-year appropriation account. Now, the Appropriations Committee has concerned itself with reprograming activities within our accounts and has instituted a reporting system whereby—I do not recall the exact figures—but when we reprogram——

Senator SYMINGTON. What does reprograming have to do with $200 million more that you want to build those 100 bombers which you told the Congress would cost 800 million?

Mr. LANMAN. Only this, when we told them "800 million for those bombers," we also told them, perhaps, 500 million for another aircraft and that may have turned out to be a lower cost and in order to make it——

Senator SYMINGTON. Or you may not want those, but what you are saying now is that you do not have to come back to Congress unless you do not have the money to pay the increase?

Mr. LANMAN. That is right.

Senator SYMINGTON. And if you need the money to pay the increase because all the other programs were accurately done, you would have to come back?

Mr. LANMAN. Have to come back and ask for an increase in the amount of the appropriation.

Senator SYMINGTON. That is with respect to the Air Force?

Mr. LANMAN. With respect to all of the services.

Senator SYMINGTON. Is that true if you are buying destroyers for the Navy and lay the hulls?

Mr. LANMAN. Yes, sir.

Senator SYMINGTON. And then you have to come back if the cost is more than you thought it was?

Mr. LANMAN. Only providing that within the appropriations, you do not have the money, or if you could not do the reprograming from some other reduced program.

Senator SYMINGTON. When you make the reprogram, do you submit all the details of that to the committees in question?

Mr. LANMAN. When it is above a certain amount, sir, we report it and discuss it thoroughly.

Senator SYMINGTON. Do you reprogram before you make the change or do you ask the Congress permission to make the change?

Mr. LANMAN. I believe that the requirement, at the moment, sir, is a reporting requirement. I would be glad to supply for the record, the existing instructions which are in detail on this matter. (Department of Defense instruction follows:)

DEPARTMENT OF DEFENSE INSTRUCTION

Subject: Report on Reprograming of Appropriated Funds

I. PURPOSE

A. House Report 493, on the Department of Defense Appropriation Act of 1956, expressed concern over the numerous reprogramings of funds within Department of Defense appropriations. The Committee on Appropriations recognized that some of these reprogramings are relatively minor but others are substantial and far reaching in scope and effect. The committee report, while noting that some variations are inevitable, stated that it has never been nor is it the intention of the committee to permit the military departments to have unrestricted freedom in reprograming or shifting funds from one category or purpose to another without prior notification or clearance of the committee. The report states that the current practice of the services in advising the committee of major reprograming both by way of specific requests for clearance and notification for information purposes, depending on the nature of the change, must be continued. In addition, the committee requested that by January 15 of each year the Department submit to the committee a detailed tabulation of all reprograming of funds effected between July 1 and December 31, and that a similar tabulation be submitted by July 31 for the remainder of the fiscal year.

B. It is the purpose of this instruction to provide for a uniform interpretation of the types of reprogramings which are of interest to the Congress and to prescribe a uniform procedure for reporting the data required in compliance with the intention of the committee as expressed in House Report 493.

II. SCOPE AND APPLICABILITY

A. The provisions of this instruction are applicable to all unexpired general (direct) appropriation accounts, except the following: (1) military construction appropriations, including "Military construction, foreign countries," and the military construction for Reserve forces accounts; (2) research and development appropriations, including the emergency fund, DOD; (3) the Department of Defense appropriations for family housing, access roads, loran stations, contingencies, and construction of ships, MSTS.

B. The level of classification below the appropriation level to be reported under the provisions of this instruction shall be the same as that in the printed budget document, which is generally at the budget activity or budget program level; provided, however, that items or projects of special interest to the committee should be reported below the level provided in the budget document.

III. DEFINITION OF MAJOR REPROGRAMING

Major reprogramings, as used herein and as believed to be responsive to the intention of the committee, are defined as any individual action or actions which fall within one or more of the following criteria:

(1) Individual actions or a total of actions during the fiscal year which represent increases or decreases of 5 percent or more of a budget activity or program whose total annual program is less than $200 million;

(2) Individual actions or a total of actions during the fiscal year which represent increases or decreases of $10 million or more of a budget activity or program whose total annual program is $200 million or more;

(3) Individual actions which involve items in which the committee has shown a specific interest, without regard to the amount of funds involved, or for which the military departments consider it desirable to advise the committee.

IV. PROCEDURE FOR CLEARANCE OF MAJOR REPROGRAMING

A. Individual actions which result in major reprograming (as defined above) will be cleared with the Assistant Secretary of Defense (Comptroller) for conformance with current policies of the Secretary of Defense prior to effecting such major reprograming. In the interest of uniformity of presentation, these major reprograming actions should be submitted to the Office of the Assistant Secretary of Defense (Comptroller) in letter form, entitled "Request for Clearance of a Major Reprograming Action," with appropriate dollar amounts shown in summary columnar form at the beginning of the letter as indicated below.

B. Where specific advance clearance of the committee is necessary or desirable prior to effecting reprograming, the military services will obtain such advance clearance in the same manner as at present, after first having cleared the proposed action with the Assistant Secretary of Defense (Comptroller).

C. Format for "Request for clearance of a major reprograming action":

Budget activity or program (1)	Initially programed amount (2)	Amount of program as proposed (3)	Amount of major reprograming (4)
(*a*) Title and number from which funds are to be transferred			
(*b*) Title and number to which funds are to be transferred			

Column 1: *Budget activity or program.*—Two line entries will be made in this column: (*a*) the title and number of the budget activity or program from which funds are being moved under the proposed reprograming action, and (*b*) the title and number of the budget activity or program to which funds are being moved under the proposed reprograming action.

Column 2: *Initially programed amount.*—Enter opposite each of the entries in column 1 the amount of the budget activity or program based on legislative history and appropriation amounts enacted.

Column 3: *Amount of program as proposed.*—Enter opposite each of the entries in column 1 the amount of the budget activity or program as proposed in this reprograming action.

Column 4: *Amount of major reprograming.*—Enter opposite each of the entries in column 1 the difference (plus or minus as appropriate) between the amount of the entry in column 2 and that in column 3.

The dollar summary data presented in accordance with the above should be accompanied by a narrative statement which will provide an adequate explanation of the circumstances and reasons in justification of the proposed reprograming, together with supporting exhibits or material as considered necessary for review by the Assistant Secretary of Defense (Comptroller) and for presentation to the Congress. In the case of major reprograming actions, as defined above, involving procurement and production programs, a list of the major end items constituting at least 75 percent of the total dollar amount involved should be presented as an attachment to the letter.

V. REPORTS REQUIRED

A. Distribution of appropriated funds by budget activity or program (format A)

1. An initial report will be prepared in accordance with format A of enclosure 1 and the instructions thereto and will be submitted within 15 days after Presidential approval of the annual appropriation act to show the distribution of the appropriated funds as enacted by Congress. (NOTE.—The report showing the distribution of fiscal year 1956 appropriated funds will be due 20 days after the date of this instruction and will reflect the status of programs as of December 31, 1955.)

2. A completely revised report will be prepared in accordance with format A of enclosure 1 and will be submitted within 15 days after Presidential approval of each supplemental appropriation act, if any, during the fiscal year.

3. A final report for the fiscal year reported on under the provisions of paragraph (1) above will be prepared in accordance with format A of enclosure 1 as of June 30 and will be submitted within 5 days after the submission of the year-end fiscal reports (standard form 133 and DD form 690).

B. Semiannual report of reprograming of appropriated funds (format B)

A semiannual report showing reprograming of appropriated funds will be prepared in accordance with format B of enclosure 1 and the instructions thereto. A report covering the period July 1–December 31 will be submitted by January 30, and a report covering the period January 1–June 30 will be submitted within 5 days after the submission of the year-end fiscal reports (standard form 133 and DD form 690). (NOTE.—Usually such year-end fiscal reports are submitted on a delayed schedule to permit final closing of the official accounts.)

Since the initial report for fiscal year 1956 will reflect status as of December 31, 1955, no reprograming report need be submitted for the period July 1–December 31, 1955. However, if, in the opinion of the military department concerned, any of the currently programed amounts involve reprograming actions taken during the past 6 months which should be brought to the attention of the Congress, these programs should be the subject of a separate memorandum accompanying the report prepared in accordance with format A of enclosure 1.

C. All reports are to be submitted in 25 copies to the Assistant Secretary of Defense (Comptroller).

VI. REPORT CONTROL SYMBOLS

A. Report control symbol DD Comp (A) 240 is assigned to the reporting requirements of paragraph V-A, above.

B. Report control symbol DD Comp (SA) 241 is assigned to the reporting requirements of paragraph V-B, above.

W. J. McNEIL,
Assistant Secretary of Defense (Comptroller).

FORMAT A

Distribution of appropriated funds by budget activity program

Department:	Appropriation:	Date:	Initial report Revised report Final report	Page — of — pages

Budget activity/program		Unobligated balance brought forward, 1 July	Appropriations	Transfers—		Adjusted net program	
No.	Title			To be made	Actual	Reflecting transfers to be made	Actual
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Reserved for future requirements						
	Planned unprogramed amounts						
	Applied to prior year program						
	Total						

FORMAT B

Semiannual report of reprograming of appropriated funds

Department:	Appropriation:	Period: From 1 July through (date)	Page — of — pages

Budget activity/program		Total annual program to date	Reimbursements from other accounts	Net program from appropriated funds (col. (3)−(4))	Adjusted net program	Total reprograming during period (col. (5) + or − (6))	Major reprograming reported to Congress to date	Net reprograming (col. (7)−(8))
No.	Title							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Reserved for future requirements.							
	Planned unprogramed amounts.							
	Applied to prior year programs.							
	Total							

INSTRUCTIONS FOR THE PREPARATION OF REPORTS ON DISTRIBUTION OF APPROPRIATED FUNDS BY BUDGET ACTIVITY/PROGRAM AND SEMIANNUAL REPORT OF REPROGRAMING OF APPROPRIATED FUNDS

A. GENERAL

1. *Format A.—distrbiution of appropriated funds by budget activity/program.*—Format A should be followed in reporting the distribution of appropriated funds following presidential approval of the appropriation act. It is recommended that the initial and each revised (if any) report be prepared as a master copy suitable for reproduction in the quantities required, and that such master copy be retained so that it may be used in preparation of the final report, thereby eliminating the necessity of retyping previously reported data and restricting entries only to those required in columns (6) and (8).

2. *Format B.—semiannual report of reprograming of appropriated funds.*—Format B should be followed in reporting the reprograming actions effected during each of the semiannual periods.

3. *Modification of formats.*—Formats A and B may be varied as to paper size, margins, columnar widths, etc., to meet limitations of reproduction equipment, but the arrangement and sequence of the information reported must be exactly in accord with those formats.

4. *Number of copies.*—Twenty-five copies of the report should be submitted to the Assistant Secretary of Defense (Comptroller) who will provide, out of that number, the necessary copies for the Committee on Appropriations. Each report should be arranged in complete sets covering all of the appropriations being reported.

B. FORMAT A—DISTRIBUTION OF APPROPRIATED FUNDS BY BUDGET ACTIVITY/PROGRAM

1. *Heading.*—The name of the department preparing the report, the title of the appropriation as listed by the Treasury Department, the date on which the report is prepared, the nature of the report, and the page number of each sheet should be entered in the appropriate blocks at the head of the sheet.

2. *Budget activity/program (columns 1 and 2).*—List under these columns the number and title of each budget activity/program, or other item of special interest to the committee. The nomenclature and sequence should be the same as that normally employed by the military departments in the budget justification books before the Congress. In those instances where the budget justification books group together two or more budget activities/programs, as contained in the fiscal codes, subtotals may be used so as to permit ready comparison with the budget as presented to the congressional committees. A one-line entry, entitled "re-

served for future requirements," should be used in those no-year appropriations in which certain funds may be programed for use in subsequent fiscal years—e. g., first destination transportation or engineering changes. A one-line entry, entitled "planned unprogramed amounts" should be used in those cases where some of the funds within an appropriation will not be required to finance currently approved programs (e. g., savings in annual accounts), or where part of the funds are *planned* for reprograming against the succeeding years' programs (i. e., changes among program-years in no-year appropriations). A one-line entry, entitled "applied to prior year programs," should be used to show the amounts, if any, of current year appropriations (column 4) applied to prior year programs in order to complete those prior year programs. Where programs are known to have changed by the time the final appropriation act has been approved, resulting in savings or credits against succeeding years' programs, the use of this line entry will permit recognition of these changes without involving subsequent reporting of the changes as a reprograming action.

3. *Unobligated balance brought forward 1 July (column 3)*.—This column will be used to enter opposite the entries in columns 1 and 2 the amount of the unobligated balance brought forward in no-year (or multiple-year) appropriations as is applicable to each budget activity/program or item of the program-year being reported. The total of this column will agree with the amount reported on line 1, standard form 133, and will represent the actual (rather than the estimated) amount of the unobligated balance. Where only a part of the unobligated balance is applicable to the current fiscal year program, only this portion will be distributed by budget activity/program, and the entries, "applicable to prior year programs," or "planned unprogramed amounts," as the case may be, will be used to cover the balance of the unobligated funds brought forward.

4. *Appropriations (column 4)*.—This column will be used to enter opposite the entries in columns 1 and 2 the amount of the appropriations, as contained in the appropriation act. Any adjustments made by the Congress from the amounts shown in the President's budget will be accurately reflected in accordance with congressional intent; the amount and identification of the congressional actions will be based upon the reports of the committees on appropriations, the debate on the appropriation bill, and related legislative history. Where such legislative intent cannot be identified from available sources of information by specific items, the adjustments should be made in such a manner as to result in balanced programs for the appropriation as a whole, giving due consideration to the interrelationships among the programs under the adjusted amount appropriated. The total of this column will agree with line 2 (plus line 3, if any) of standard form 133.

5. *Transfers—to be made (col. 5)*.—This column will be used only on the initial and revised reports during a given fiscal year—i. e., those prepared after Presidential approval of the annual and/or supplemental appropriation acts (see pars. V–A–1 and V–A–2). Enter in this column opposite the entries in columns 1 and 2 the amount of any anticipated transfers, including rescissions, which have been authorized by specific action of the Congress; such transfer amounts should be included within the total programed funds. In the case of general transfer authorization language in which the exact source of the transfer is not yet known, the amount of the unknown source of the transfers will be footnoted in the report. In the case of general transfer authorizations from any available balances, the transfers will be shown against the line, "Planned unprogramed amounts," rather than distributed by budget activity program or item. The total of this column will agree with lines 5 (a) and 5 (b) of standard form 133.

6. *Transfers—actual (col. 6)*.—This column will be used only on the final report for a given fiscal year—i. e., the report prepared after the close of the fiscal year (see par. V–A–3, above) to report actual transfers in accordance with instructions in paragraph 5 immediately above.

7. *Adjusted net program—reflecting transfers to be made (col. 7)*.—This column will be used only on the initial and revised reports during a given fiscal year—i. e., those prepared after Presidential approval of the annual and/or supplemental appropriation acts. Enter in this column opposite the entry in columns 1 and 2 the sum of the entries in columns 3, 4, and 5. It should be noted that the total of this column will not agree with line 6 of standard form 133 by the amount of the reimbursements, if any; these reimbursements are omitted from the report on reprograming on the assumption that the direct or appropriated funds are of primary interest to the congressional committees and

that reimbursable transactions to one account are generally included as part of the appropriated funds in other accounts.

8. *Adjusted net program—actual* (*col. 8*).—This column will be used only on the final report—i. e., the report prepared after the close of the fiscal year. Enter in this column opposite the entries in columns 1 and 2 the sum of the entries in columns 3, 4, and 6.

C. FORMAT B—SEMIANNUAL REPORT OF REPROGRAMING OF APPROPRIATE FUNDS

1. *Heading.*—The name of the department, the title of the appropriation, the period covered by the report (i. e., December 31 or June 30), and the page number of each sheet should be entered in the appropriate blocks at the head of the sheet.

2. *Budget activity/program* (*cols. 1 and 2*). List under these columns the same numbers and titles as used in format A.

3. *Total annual program to date* (*col. 3.*).—Enter in this column the distribution by budget activity/program or item of the total annual program (budget authorization but not necessarily the funded amount thereof) as approved on the date of the report (i. e., December 31 or June 30). The total annual program will include reimbursable operations, and the distribution in this column should be consistent with that shown in column 2 of the December 31 and June 30 reports on DD Form 690. The annual program will include all funds for all planned and approved programs, whether or not such funds have been apportioned or are included in administrative contingency reserves and whether or not such programs are planned for obligation or commitment within the current fiscal year. On the other hand, where, as a result of actions taken in connection with the apportionments or other administrative operations, the annual programs have been changed as a matter of planned reprograming, properly approved by management, only the amount of the approved annual programs will be entered in this column (as is the case for amounts entered in column (2) of DD Form 690). In the event that the approved annual programs are less than the total funds available for programs, the line entry "Planned unprogramed amounts" will be used to indicate the savings planned in the annual accounts or to indicate the changes among program-years in the no-year appropriations. Actual reprogramings which result solely from the nonapportionment of funds will be reported in the same manner as other reprogramings, with the explanation being given as "Nonapportionment of funds."

4. *Reimbursements from other accounts* (*col. 4*).—Enter in this column the actual amounts of reimbursements to the date of the report which have been included in the amounts entered in column (3) as attributable to reimbursable operations. This method of reflecting reimbursable operations is designed to minimize the amount of "apparent" reprograming merely as a result of changes in reimbursable work which may not affect the planned programs utilizing appropriated funds. Further, by subtracting the amount of reimbursements from the total annual program, the resultant net annual program for appropriated funds will be more nearly comparable with the net program as initially approved.

5. *Net program from appropriated funds* (*col. 5*).—Enter in this column the difference between the amount in column (3) and the amount in column (4) by budget activity/program or item. This difference will be assumed to represent, as closely as practicable, the net annual program from appropriated funds, in a manner similar to that used in the budget justification books for "direct" obligations.

6. *Adjusted net program* (*col. 6*).—Enter in this column the same amounts as reported in column (7) of format A.

7. *Total reprograming during period* (*col. 7*).—Enter in this column the difference between the amount in column (5) and the amount in column (6) by budget activity/program or item. These differences will be both plus and minus. The amounts in this column will represent the total reprograming, both major and minor, through the reporting period.

8. *Major reprograming reported to Congress to date* (*col. 8*).—Enter in this column the amounts of the major reprogramings which have been cleared with the Assistant Secretary of Defense (Comptroller) and reported to the Congress through the reporting period. These clearances in letter form should be so maintained by some serial numbering system as to permit a rapid and accurate summary to be made for inclusion in this column of the report.

9. *Net reprograming (col. 9)*.—Enter in this column the difference in the amount in column (7) and the amount in column (8) by budget activity/program or item. These differences will represent all minor reprograming, which did not require prior clearance, and any major reprograming actions which have been cleared with the Assistant Secretary of Defense (Comptroller) but not yet reported to the Congress. Additional comments or remarks in explanation of the reprograming report should be shown on the reverse of the sheets or by attaching a separate sheet to each applicable appropriation report.

Senator SYMINGTON. Reporting—does that mean you ask the Congress for, say 1,600 million on the basis of various airplanes and then you can change that at your will without coming back to the Congress and asking for permission to change it?

Mr. LANMAN. It is my understanding, sir, that no major change is made without consultation.

Senator KENNEDY. I want to ask one last question. How broadly can you reach into other sources of funds if you do not have sufficient funds to pay for a specific program?

Mr. LANMAN. Only within the confines of the same appropriation; that is, the aircraft appropriation.

Senator KENNEDY. For instance, can you take the money for fighters?

Mr. LANMAN. Because of the way money is appropriated, yes, sir.

Senator KENNEDY. Does it just have to be for planes or can it be for Air Force bases?

Mr. LANMAN. The Air Force has six major subdivisions.

Senator KENNEDY. Does every explanation have to be in one of those subdivisions?

Mr. LANMAN. Yes.

Senator SYMINGTON. Mr. Chairman, may I ask one more question?

Senator KENNEDY. Yes, and after that, we will adjourn. I also want these letters, referring to Senator Payne's bill, S. 3199, to be inserted in the record.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
March 19, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization
of the Committee on Government Operations
United States Senate, Washington 25, D. C.

DEAR SENATOR: I am very sorry that I will not be able to be present at your hearings on S. 3199. This bill is designed to improve governmental budget and accounting procedures.

I would appreciate it if you would insert this letter in the record. As you know, I am a cosponsor of S. 3199 and think highly of its purposes and objectives. Accordingly, I urge that it receive the favorable action of your subcommittee.

With best wishes, I am,
Sincerely yours,

JOHN MARSHALL BUTLER,
United States Senator from Maryland.

UNITED STATES SENATE,
COMMITTEE ON PUBLIC WORKS,
March 20, 1956.

In re S. 3199.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization of the Committee on Government Operations, United States Senate.

DEAR SENATOR KENNEDY: I have the honor to cosponsor S. 3199, a bill to improve governmental budgeting and accounting methods and procedures, and for other purposes. This bill, pending before your subcommittee, was introduced by our colleague, Senator Frederick Payne, whom I consider outstandingly qualified in this field by reason of his career in accounting and fiscal practices, both in business and Government.

Since Senator Payne will testify before your subcommittee, I will not make a detailed analysis of this measure. I am sure Senator Payne will present a strong case of its most serious consideration by your subcommittee.

This bill would implement the majority of recommendations of the second Hoover Commission Report on Budget and Accounting. A lion's share of the savings envisioned by the Commission to result from adoption of its recommendations, would result from implementation of its proposals in this area.

The potentialities of sound fiscal management have never been realized by the Federal Government. Budgeting is more than estimating expenditures and revenue. Budgeting should provide tools to control expenditure and to insist on efficient management of the agencies.

Accounting is more than mere tabulation of income and outgo. Accounting should provide financial facts to make a realistic review of past and proposed performance.

The foundation for our present Federal budget and accounting system was laid in the Budget and Accounting Act of 1921. Since then, the size of our Federal Government, as measured by its annual spending, has mushroomed to more than 15 times its 1921 size.

The single stark fact that the United States Government now spends $65 billion a year should impress on the Congress the need for having the most modern and efficient budgeting and accounting systems devised by man.

In a recent speech in which he urged adoption of these recommendations, Mr. Hoover simply but eloquently stated the case for these proposals. He said, "Competence and leadership in the housekeeping of our Government are a contribution to freedom in every American home."

Letters to me from hundreds of Nebraskans indicate that there is a very wide base of support for the recommendations of the second Hoover Commission in my State.

Again, I urge your subcommittee to give implementation of the budgeting and accounting report of the Hoover Commission, as provided in S. 3199, its more serious consideration and favorable action, at a very early date.

Sincerely yours,

ROMAN L. HRUSKA,
United States Senator from Nebraska.

UNITED STATES SENATE,
COMMITTEE ON ARMED SERVICES,
March 21, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization of the Committee on Government Operations, Senate Office Building, Washington, D. C.

MY DEAR MR. CHAIRMAN: Senator Payne has advised me that you are to commence hearings shortly on the bill introduced by himself and others, including myself, "To Improve Governmental Budgeting and Accounting Methods and Procedures, and for Other Purposes." He also states that this bill combines the recommendations of the Hoover Commission on budgetary and accounting practices.

Whether or not this bill is in final satisfactory form to accomplish the results is for your Committee to say. I believe that the Federal system of budgeting and accounting methods can be improved. May I cite four instances:

1. Many of our municipalities and State governments have an accrual system. So far as I know, the Federal Government has none.

2. It is my understanding that there is no present method for accounting for outstanding checks. In other words, the cash balance of the Treasury Department is made up on day-to-day basis after the day's business is completed.

3. The inventory systems of the Government are far from complete. The armed services are building one up but it is progressing very slowly. Until very recently there was no inventory of real estate owned by the Government.

4. Under present budgetary practices, original estimates are built up almost a year in advance of the start of the fiscal year. In some instances they are outdated by the time they are put into effect.

While there are other instances that I could call to your attention, these are four examples which induced me to join in the filing of this bill. I appreciate the opportunity to join and to bring these facts to your attention.

With best regards, I am,

Sincerely,

LEVERETT SALTONSTALL,
United States Senator from Massachusetts.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., March 21, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Reorganization Subcommittee, Senate Committee on Government Operations, Washington, D. C.

DEAR MR. CHAIRMAN: I understand that the Reorganization Subcommittee is currently holding hearings on Senator Payne's bill, S. 3199, which would implement and carry out certain recommendations of the Hoover Commission's Budget and Accounting Report.

I would like to have been able to appear before your subcommittee to speak on behalf of Senator Payne's bill because I have a deep interest in the subject and have introduced in the House a bill, H. R. 9402, which is an exact companion measure to Senator Payne's bill. Unfortunately, because of prior commitments, I probably shall be unable to appear before your subcommittee today.

I would appreciate it very much if the subcommittee would accept, for insertion within the transcript of its hearings, my enclosed statement on behalf of Senator Payne's bill.

Sincerely yours,

GLENARD P. LIPSCOMB,
Member of Congress.

STATEMENT OF HON. GLENARD P. LIPSCOMB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, I appreciate the subcommittee's permitting me to submit for the record of these hearings this statement endorsing Senator Payne's bill, S. 3199, introduced by the Senator on February 14, 1956, which would implement and carry out certain recommendations of the Hoover Commission contained in the Hoover Commission's Budget and Accounting Report transmitted to the Congress in June 1955.

On February 20, 1956, I introduced in the House a bill, H. R. 9402, which is an exact companion measure to Senator Payne's bill.

I would like to commend the Senate Government Operations Committee upon its timely and serious consideration of Senator Payne's bill and related budget and accounting reform proposals. I have long believed that one of the most important and pressing areas for legislative action is the field of budgeting and accounting. Significant improvements in financial management at almost all levels of Government are possible, and the Congress should make every effort to improve and modernize our governmental budgeting and accounting systems to make possible the most effective congressional control over Government expenditures.

I strongly urge the enactment of S. 3199 because I believe it will make possible more effective congressional control over Government expenditures. It does this by providing for cost-based accouuting and cost-based budgeting throughout the Goverument. With cost-based budgeting the Congress will be iu a position to make appropriations for each year in terms of the estimated annual accrued expenditures during that year—that is, Congress can make available to the executive agencies for any fiscal year funds only sufficient to cover the cost of goods and services estimated to be received in that year. The establishment of appropriations on an accrued expenditure basis is a fundamental step that must be taken if Congress is to regain effective control over the purse strings. This requires cost-based budgets which can be developed only if Government agencies maintain their accounts on an accrual basis.

Sectiou 2 (b) of this bill provides that the accounts of each agency shall be kept on an accrual basis to show the actual cost of operation. This would facilitate the preparation of cost-based budgets.

Section 1 (b) provides that cost-based budgets should be used by all departments and agencies. It goes on to provide that all departments and agencies shall submit performance reports to the Bureau of the Budget. These reports will be important documents in making significant the cost-based performance budgets developed by the ageucies.

To facilitate the development of cost-based accrual accouuts and of cost-based performance budgets, section 2 (c) provides for the creation in the Bureau of the Budget of a Staff Office of Accounting. This ageucy, with the cooperation of the Department of the Treasury and the General Accounting Office, would assist the operating departments and agencies in the development of adequate accounting systems to meet the objectives of this bill.

The Cougress, by enactment of the Budget and Accounting Procedures Act of 1950, took a significant step forward in providing for the use of program or performance budgets by the executive agencies of the Governmeut. The objective of this law was to have the Government departments show how they intended to spend their money on the basis of the major programs that the agencies carry out. To make such a budget thoroughly effective and meaningful, Government accounts must be kept on a cost or an accrual basis and not merely on au appropriations basis. The ageucies must be able to tell what a given program has cost and is likely to cost in a giveu fiscal year, and not merely how much appropriated funds have been spent in a given fiscal year. Only with adequate accrual cost-based accounts can a budget be developed that will show how much a given program is likely to cost iu a given fiscal year. Thus the enactment of this bill, in my opinion, is a necessary step to make thoroughly effective the Budget and Accounting Procedures Act of 1950.

The most important reason for the enactment of this bill is that only through the use of accrual accounting and cost-based budgets can the Congress regain more effective control of the purse, because then it will be in a positiou to make annual appropriations on the basis of the estimated accrued expenditures that are to be made during the forthcoming fiscal year. This would put an end to the practice in the executive agencies of building up unexpended balances of appropriated funds. At the beginning of the fiscal year 1956, there was available to Government agencies out of funds appropriated for previous fiscal years $53,900 million of unexpended funds.

The availability of such large unexpeuded balances of appropriated funds impairs congressional control over the purse for several reasons:

First, it creates an incentive upon the part of the spending agencies to obligate funds to prevent appropriations from lapsing.

Second, Congress is not able to control the cost incurred in carrying out specifically approved programs.

Third, Congress cannot control the level of expenditures in any given year. The amount of money appropriated for any fiscal year uuder present circumstances has little relationship to the amount of money spent in that fiscal year.

Fourth, there is no direct and effective control over the budget surplus or deficit in any fiscal year.

If the Congress, made up of the chosen representatives of the American people, is to exercise any constitutional degree degree of effective control over the executive branch, it must be in a position to control the amount of money to be expended by it. Effective control over the purse is one of the most important devices available to Congress for protecting the American people from the potentiality of irresponslble expeuditures.

The enactment of S. 3199 will make it possible for us to attain this objective, and it will enable the executive branch to develop adequate accounting that is a necessary tool for efficient management.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington 6, D. C., March 20, 1956.

Hon. JOHN F. KENNEDY,
Senate Committee on Government Operations,
Senate Office Building, Washington, D. C.

DEAR SENATOR KENNEDY: A statement in support of the underlying objectives of S. 3199, upon which bill your subcommittee is holding hearings, is being prepared for submission on behalf of the Chamber of Commerce of the United States by Mr. M. C. Conick, resident partner, Main & Co., First National Bank Building, Pittsburgh, Pa.

We would very much appreciate permission to submit it later for the record of your hearings.

Cordially yours,

CLARENCE R. MILES,
Manager, Legislative Department.

Senator KENNEDY. The hearing will be resumed on Monday and the Department of Defense will have a chance to discuss this subject.

Mr. LANMAN. Mr. McNeil asked me to apologize for his absence. He is unavoidably out of the city.

Senator KENNEDY. Can he be with us on Monday?

Mr. LANMAN. I hope so, sir. I will discuss it with him.

Senator KENNEDY. At the suggestion of Senator Symington we will have the hearing on Tuesday, as far as the Department of Defense is concerned, and some of the other agencies, which were notified this afternoon, can be heard on Monday.

Senator SYMINGTON. I would like to ask one more question.

Senator KENNEDY. Yes.

Senator SYMINGTON. Are there any differences with respect to long-term purchase contractual obligations between the various services? As I understand it, you say there are not?

Mr. LANMAN. With respect to the most major items, sir, there is no difference, but there are some.

Senator SYMINGTON. Most major——

Mr. LANMAN. Ships, aircraft, and so forth.

Senator SYMINGTON. All on the same basis?

Mr. LANMAN. Yes, sir, except that in the Navy and in 1 or 2 aspects of the maintenance and operations appropriations, there are some long-lead-time items which are financed by annual appropriations which we discussed here yesterday. This is not, however, comparatively speaking, a large segment of our procurement.

Senator SYMINGTON. I understand. In other words, the major things run across the board for all services; is that right?

Mr. LANMAN. Major items.

Senator SYMINGTON. Thank you, Mr. Lanman.

Senator Payne, would you care to ask any questions?

Senator PAYNE. No, thank you very much. I know you are anxious to get up on the floor. This is an interesting subject.

Senator SYMINGTON. I would be very glad to yield to somebody who knows as much as you do.

Senator PAYNE. Thank you very much. The point that we have been discussing is the one I did leave out of the bill. I did say in the statement, which was read prior to your being able to come to this committee, my strong support, however, of this provision and urging the committee to give real consideration to adding it to the bill because it was needed.

Let me just say, finally, that my interest in this goes back a long, long way because my start in life in this field came through the distinguished father of the chairman of this subcommittee, Joseph P. Kennedy, who is a very distinguished gentleman. I worked with him for many years in theater operations.

Senator SYMINGTON. Thank you, Senator.

The subcommittee will recess until 10 o'clock on Monday.

(Whereupon, at 12:05 p. m., the subcommittee adjourned.)

BUDGETING AND ACCOUNTING

MONDAY, MARCH 26, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON REORGANIZATION OF
THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 412, Senate Office Building, Washington, D. C., Senator Strom Thurmond, presiding.

Present: Senators Strom Thurmond, Democrat, South Carolina; Norris Cotton, Republican, New Hampshire, and Thomas E. Martin, Republican, Iowa.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator THURMOND. We will resume hearings today upon recommendations made by the Hoover Commission relating to improvements in the Government's budgeting and accounting systems.

The subcommittee will receive testimony this morning from representatives of the Bureau of the Budget, the General Accounting Office, and the Treasury Department on S. 3199, which would implement the Hoover Commission's recommendations in these important areas.

The chairman, Senator Kennedy, who is out of the city today, has asked me to express his appreciation and that of the subcommittee to the witnesses who were not heard on Wednesday last, and who have returned today to present their testimony.

Now, just before we hear the first witness, Mr. William F. Finan, Assistant Director for Management and Organization, the Bureau of the Budget, we are going to give the Senator from New Hampshire, Senator Cotton, an opportunity to present a statement.

STATEMENT OF HON. NORRIS COTTON, UNITED STATES SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator COTTON. Mr. Chairman, I wish to make a brief statement, as a member of the subcommittee and as a cosponsor of S. 3362, before we hear the first witness, in order to bring out an important and heretofore unmentioned aspect of the bill.

If enacted in substantially its present form, as I hope it will be, S. 3362 will reduce the amount of carryover funds available for expenditure after the end of the current fiscal year by an estimated $5 billion.

It will increase congressional control of the purse strings to the extent of $5 billion by requiring new appropriations from Congress before that amount can be spent.

Furthermore, the bill will reduce the balance of unused appropriations available after the end of the next fiscal year by an additional $2.5 billion, based on current estimates.

These tremendous carryover balances have made it difficult both for Congress to gain control of the purse and for the executive branch to get control of Government spending.

The President's budget estimates that the amount of these funds which will be available at the beginning of the fiscal year starting July 1, 1956, is $47.6 billion. Passage of this bill would reduce that amount to an estimated $42.6 billion.

The bill will further reduce the funds to be carried forward at the end of the 1957 fiscal year to an estimated $39.3 billion, just about half as much as they were when the Eisenhower administration took office.

These reductions are accomplished in the bill by requiring all agencies to write off their books and return to the Treasury within 90 days after the end of the fiscal year all unobligated annual appropriations for that year. Under the present law, these amounts are available for expenditure by the departments and agencies for an additional 2 years.

While these reductions will not actually affect the balancing of the budget, the fact that amounts of this magnitude will be written off the books of the various departments should aid in producing sufficient economies and savings.

It also seems worth noting that the bill would result in additional direct savings which in the General Accounting Office alone will amount to about $600,000 a year.

Mr. Chairman, I wanted to make that statement because I have been intensely interested in this bill and was one of its sponsors, and it seemed an amazing thing to me that it had such a far-reaching significance, not in savings, but in the bookkeeping of the Government. And I want to get that before the subcommittee.

Senator THURMOND. We are indeed grateful to the able and distinguished Senator from New Hampshire.

Senator COTTON. Thank you, Mr. Chairman.

Senator THURMOND. Mr. William F. Finan, assistant director for management and organization of the Bureau of the Budget, is our first witness this morning on S. 3199.

We are glad to have him with us and ask him to proceed.

Mr. FINAN. Thank you, Mr. Chairman. I am very happy to be here this morning.

Senator THURMOND. If you would like to introduce your associate, we would be glad to have you do so.

Mr. FINAN. I am accompanied by Mr. William J. Armstrong, who is the Chief of the Accounting Group of the Bureau of the Budget.

STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR MANAGEMENT AND ORGANIZATION, BUREAU OF THE BUDGET; ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING GROUP, BUREAU OF THE BUDGET

Senator THURMOND. Mr. Finan, would you care to summarize your statement? We will place your entire statement in the record. If you care just to summarize it for the purposes here, it might save time.

(The prepared statement of Mr. Finan is as follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., March 20, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: This will acknowledge your letter of February 21, 1956, inviting the Bureau of the Budget to comment on S. 3199, a bill "To improve governmental budgeting and accounting methods and procedures, and for other purposes."

This bill is based upon the budget and accounting report of the Commission on Organization of the Executive Branch of the Government. The Bureau of the Budget has the following comments to offer on the various provisions of S. 3199.

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

Section 1 (a): This subsection adds additional language to section 213 of the Budget and Accounting Act of 1921. It is designed to implement recommendation No. 22 of the Hoover Commission Budget and Accounting Report. In making this recommendation, the Hoover Commission suggested amending the Budget and Accounting Procedures Act of 1950, to make the Bureau of the Budget responsible for developing comprehensive reports of the financial results of activities for the Government as a whole and for each of its major component activities. Since this subsection amends the Budget and Accounting Act of 1921 and specifies the preparation of comprehensive reports showing financial results for activities of the departments and establishments, it is more limited in coverage than the Hoover Commission recommendation. Under the definitions of the 1921 act, the terms "departments and establishments" exclude the legislative branch and the Supreme Court.

It should be noted that this recommendation is also the subject of separate pending legislation: H. R. 8236 and S. 3323, bills "To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof." Both of these latter bills amend the Budget and Accounting Procedures Act of 1950 and, as indicated by their titles, their coverage is broader.

The existing provisions of the Budget and Accounting Procedures Act of 1950 require that the Secretary of the Treasury prepare reports that will "present the results of the financial operations of the Government" and this bill does not amend that requirement. This provision would, therefore, hold a potential for duplication of effort in the central agencies as well as undesirable effects in the operating agencies required to produce the necessary information.

The development of an integrated system of financial reporting by the Federal Government that would avoid duplication of effort in the operating and central agencies is one of the major objectives of the joint accounting program. Progress has been and is being made in that direction, based on the cooperative efforts of the General Accounting Office, the Bureau of the Budget, the Treasury Department, and the operating agencies. Illustrative are recent improvements in the central reports issued by the Treasury Department. Work is currently underway on the development by the operating agencies of the kinds of financial information which will be needed to provide the basis of improved central reports of the types recommended by the Hoover Commission. The Bureau of the Budget fully supports the objectives of the Commission in this respect. As the Commission

task force noted, however, this objective cannot be completely attained until the accounting systems throughout the executive branch have been developed sufficiently to produce the necessary data.

In view of these facts we believe that legislation on this subject at this time would be premature. We recommend therefore that section 1 (a) be deleted from S. 3199.

Section 1 (b): This subsection would amend section 216 of the Budget and Accounting Act of 1921 and would have the effect of writing into law four of the Hoover Commission recommendations. As amended, subsection (a) of section 216 would require the use of cost based operating budgets by all departments and establishments as proposed in recommendation No. 3 of the Hoover Commission. Subsection (b) would require internal quarterly performance reports to the heads of departments and establishments; annual agency reports on the conduct of operations to the Bureau of the Budget; and an annual report from the Bureau of the Budget to the President on the performance of all departments and establishments. This would enact recommendation No. 2 and the remainder of recommendation No. 3 of the Hoover Commission. Subsection (c) would direct the preparation of appropriation requests on a cost basis, consistent with the suggestions contained in Hoover Commission recommendation No. 6. Subsection (d) would require the submission of data on program costs and accomplishments and provide for review of organizational performance, thus covering that portion of the Commission's recommendation No. 4 that is not already specified in the Budget and Accounting Act, as amended.

The Bureau of the Budget is in agreement with the objectives of each of the Hoover Commission recommendations involved in section 1 (b) of S. 3199. Each of these proposals can, however, be implemented without specific legislation of the type proposed.

With regard to the proposed section 216 (b), for example, the entire reporting process has been given continuous attention by the Bureau of the Budget as part of its management functions and responsibilities. The Bureau has encouraged agency action in the development and internal use of suitable performance information for management and budgetary purposes. The complexity of agency operations and the variety of purposes to be served makes it undesirable, however, to fix the timing of internal reports in the manner proposed in this legislation. With respect to external reporting, the agencies regularly submit reports on the conduct of operations to the Bureau of the Budget as part of the budget process; and the Bureau submits pertinent information of this type to the President informally throughout the year and more formally during the period of annual budget formulation.

The matter of improving performance reports is not so much one of prescribing requirements as it is one of applying sufficient staff to the work to bring about more rapid accomplishment of the desired improvements. Work needs to be concentrated on determining the requirements to be met in relation to the information available at each level of operation, and on developing the necessary data in a form calculated to be most helpful to those who will use it. The President and other officials of the executive branch all now have adequate authority to obtain the reports and information which they require. In order to permit the development of reporting practices most suitable to the purposes to be served at each management level, the Bureau of the Budget would therefore recommend against enactment of the proposed section 216 (b).

The other proposed subsections—216 (a), (c), and (d)—specify the use of costs for management and budgetary purposes. Costs are recognized as an important element in management and budgeting in the executive branch and this Bureau in recent years has been encouraging the introduction of such data into the budget process. We understand by these subsections that reference is made to the type of cost-based budgets we have been introducing—showing costs reconciled to obligations. The use of cost information as proposed, however, is dependent upon the ability of agency accounting systems to produce such data. While the joint accounting program has made considerable progress in advancing the cost concept throughout the Government, the installation in the agencies of accounting systems that develop such data will take a long time. This is recognized in section 2 (b) of this bill which requires such installations "as soon as practicable." We believe that a similar provision should be included in subsections 216 (a), (c) and (d). In addition, we suggest the deletion of the last part of subsection (d) which requires a review of performance by organizational units whenever such units do not coincide with performance

budget classifications. This provision would add much detail inappropriate for inclusion in the budget document itself. Such material can be furnished the Congress as part of the budget justifications. With these changes the Bureau of the Budget has no objection to the enactment of subsections 216 (a), (c) and (d).

Section 1 (c): This subsection of S. 3199 adds a new section to title II of the Budget and Accounting Act of 1921. The language is directed toward partial implementation of the first recommendation in the Hoover Commission Budget and Accounting Report—more particularly that part concerned with staff assignments in the Bureau of the Budget. It directs the placement of Bureau employees in the principal departments and establishments on a rotating basis, specifies that not more than two persons shall be placed in each principal subdivision of such units, and indicates that such persons shall possess the combined skills of a statistician, cost accountant, administrative expert, and program analyst.

This subsection of the bill involves the all-important area of Bureau-agency relationships. For best results, the Bureau has found that relationships with the agencies must be based on cooperation and mutual understanding of the basic factors underlying the submission and presentation of agency budgets. Limited attempts toward the type of arrangement proposed have met with little success in the past. The enactment of legislation on this point would, we believe, have an undesirable effect on the cooperative effort required between this Bureau and the agencies in developing the executive budget. In addition, it would be difficult for the Bureau to meet the specifics of this section in terms of staffing and rotation of assignments and it would be virtually impossible to find persons with the stated qualifications. The Bureau therefore recommends against enactment of section 1 (c). It is proposed to adopt a substantial part of recommendation No. 1 by administrative action.

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

Section 2 (a): This subsection covers Hoover Commission Recommendation No. 5, which suggests further synchronization of agency organization, budget, and accounting classifications. This is a desirable objective, one that meets with full agreement throughout the executive branch when the principle is applied on a practical basis. Since adoption of the performance budget concept, the Bureau of the Budget and joint accounting program staff have continuously emphasized this need. Considerable progress has been made and the agencies are directing efforts toward the resolution of existing problems in this area under instructions issued by the Bureau of the Budget.

Experience has shown that this principle must be applied on an individual agency basis—striving for consistency to the extent feasible while recognizing the need for adequate budget presentation of the programs conducted by the agency. In view of the progress made to date, the governmentwide acceptance of this objective, and the continuous attention being given this subject in the budget process, the legislation proposed would be unnecessary. Accordingly, the Bureau of the Budget recommends that section 2 (a) not be enacted.

Section 2 (b): This provision has the effect of requiring each agency to maintain an accrual accounting system, including appropriate monetary property accounts. The purpose of this requirement is to provide cost information to serve the management and budgetary needs of the agency and the Government. The section is based upon two of the Hoover Commission recommendations in the accounting area—Nos. 14 and 16.

The maintenance of accounts on the accrual basis is generally recognized as the most suitable method of obtaining information that provides for full disclosure of agency operations and financing. The installation of such systems has been one of the major objectives of the joint accounting program. By reason of the nature of the work involved, however, this is a long-range job—which is recognized in the language of this subsection. In view of the relationship of this proposal to the legislation for cost-based budgeting contained in section 1 (b) of this bill, the Bureau of the Budget similarly has no objection to the en-sections to the Budget and Accounting Procedures Act of 1950. These two new actment of section 2 (b).

Section 2 (c): This portion of the proposed bill would add two additional sections would establish a Staff Office of Accounting in the Bureau of the Budget, headed by an Assistant Director for Accounting, who would be appointed by the

President and assigned specific duties; and would authorize and direct the head of each executive agency to provide for the appointment of a comptroller who would similarly be assigned specific duties. This reflects Hoover Commission Recommendation Nos. 10 and 11, which are also the subject of separate pending legislation: H. R. 7209, H. R. 7338, S. 2369, and S. 2480, bills "To provide for improving accounting in the executive branch of the Government, and for other purposes."

The substance of recommendation Nos. 10 and 11 is very fundamental to the general purpose of the report on budget and accounting. Assistant Director Rappaport has recently been designated as responsible for expanding the Accounting Group of the Bureau of the Budget and implementing these recommendations.

It is our understanding that the purpose of the Hoover Commission recommendations on this subject was to propose these organizational arrangements for consideration of the heads of the affected agencies, rather than to suggest the passage of legislation on the matter. This subsection, however, would prescribe by law the internal organization and functions for financial management in the executive agencies. This runs counter to the principle of organizational flexibility reflected in the recommendations of the first Hoover Commission, which were strongly endorsed by the Congress in subsequent legislative enactments. In order to provide for the most practicable and efficient operation in each agency, the responsible head of the organization should be permitted flexibility in the assignment of functions and duties, rather than to have a rigid organization pattern imposed by law on his fiscal organization.

Moreover, the provision for presidential appointment of an Assistant Director for Accounting in the Bureau of the Budget, as prescribed in this legislation, is inconsistent with the present method of appointing assistant directors. Appointments are now made by the Director of the Bureau of the Budget and we consider that to be the appropriate method.

The Bureau of the Budget feels that this legislation is undesirable and therefore proposes deletion of section 2 (c) of S. 3199.

Additional Provisions

The remaining three sections of this bill establish new basic legislation in the area of budgeting and accounting in the Federal Government.

Section 3: This section establishes the intent of Congress that the Government's allotment system should be simplified, with the objective of establishing a single allotment for each operating unit in an agency. This would directly implement Hoover Commission Recommendation No. 13, which has met with complete agreement in the executive branch.

A single allotment for each operating unit is desirable from the management standpoint and is urged where practicable to provide maximum flexibility in the conduct of operations. Effective progress has been made, particularly in the installation of accrual accounting systems. In such installations, allotments are generally established for fund control at the highest practical level, with subordinate cost accounts utilized for operational control purposes.

While this work has proceeded and could continue on the basis of administrative direction, the Bureau of the Budget would have no objection to enactment of this section of the bill in view of its relationship to the provision for adoption of accrual accounting.

Section 4: This part of this proposed legislation prescribes the use of a single account for liquidation of valid obligations under each appropriation or fund in the respective executive agencies. This represents a direct legislative statement of Hoover Commission Recommendation No. 17, which is directed toward simplification of existing accounting requirements.

Legislation is necessary to enable implementation of this Hoover Commission proposal, and a bill suitable for this purpose has been developed under the joint accounting program. This proposal has been introduced as separate legislation, designated as H. R. 9593 and S. 3362. This separate legislation not only would provide for a desirable simplification in the maintenance of appropriation accounts, but would also carry out Hoover Commission Recommendation No. 18—which is not covered by S. 3199. This latter recommendation suggests the settlement of valid claims within the agencies rather than by the General Accounting Office.

The proposed bills mentioned immedately above differ from the provisions of section 4 of S. 3199 in that all prior year accounts under a single appropriation would be merged into one account but would be kept separate from the current ap-

propriation. This relatively minor deviation from the Hoover Commission proposal is considered desirable to avoid the possibility of augmentation of current year funds by excess obligating authority accruing from prior year appropriations.

In view of these considerations, the Bureau of the Budget recommends the deletion of section 4 from S. 3199; but suggests favorable consideration of the separate legislation identified above in order to attain the accounting simplifications desired.

Section 5: The last section of this bill would require the Comptroller General and the Director of the Bureau of the Budget to make joint studies of steps to eliminate duplicate accounting within the Treasury Department and between that Department and other agencies and of internal auditing in executive agencies; and to report to the Congress on their findings within 2 years of enactment of the legislation. This is directed toward accomplishment of Hoover Commission Recommendations Nos. 20 and 25.

As previously pointed out, the improvement of central accounting and reporting has been a major activity under the joint accounting program since its inception. Work is currently under way on installation of a system designed to eliminate duplicate accounts within the Treasury Department. As for the elimination of duplicate accounts between Treasury and the agencies, this is a matter of current concern to a joint working group established for the simplification of the central accounting and reporting processes. This group has as a primary objective the elimination of such duplicate accounts as soon as such action is feasible. A joint study like that proposed, therefore, seems to us to be unnecessary.

The subject of internal auditing has also been given continuous attention under the joint accounting program. It has been recognized as a basic element in the internal control systems required in the agencies by the Budget and Accounting Procedures Act of 1950. In this framework, the internal audit practices of the agencies are under continuous study by General Accounting Office staff in the conduct of their comprehensive audit program. Their findings and recommendations on this subject are included in the audit reports prepared for submission to the Congress. Nevertheless, as a result of the Hoover Commission proposal, a special study such as that proposed here will be considered by the central agencies conducting the joint accounting program.

In view of the circumstances and the fact that these are one-time investigations, legislative provision for the conduct of these studies is unnecessary. The Bureau of the Budget, therefore, recommends against enactment of section 5 of the bill.

SUMMARY

After thorough consideration of the proposed S. 3199, the Bureau of the Budget is of the opinion that while the basic objective of this bill is meritorious and highly desirable, most of the proposed actions can be accomplished more readily and appropriately by administrative action. However, as indicated above, the Bureau of the Budget would have no objection to the enactment of those sections of the bill that provide for the use of accrual accounting and cost-based budgeting. Such legislative provisions would firmly establish these principles for use in governmental budgeting and accounting, which would in turn support current efforts under the joint accounting program, and provide a stimulus for further implementation of other Hoover Commission proposals relating to budgeting and accounting.

Sincerely yours,

ROWLAND HUGHES, *Director.*

Mr. FINAN. I understand, Mr. Chairman, that the subcommittee members have had an opportunity to review the report of the Budget Director on S. 3199, which deals with the various provisions of the bill very extensively, so that this morning I think a very brief comment by me will be all that is necessary, and then we will be available to answer any questions which the committee may care to ask.

In summary, the Bureau's position on this bill is as follows:

We find ourselves generally in complete agreement with the overall objective of this piece of legislation, which is to provide an additional basis for further modernization and reform of the Government's budget and accounting procedures.

We find upon review of the specific provisions of the bill, however, Mr. Chairman, that many of them, in our judgment, are unnecessary in that there is already an adequate legal basis for the work which is currently going forward in the areas that are covered in the various sections of this bill.

There are, however, several sections which were specified in the Director's report, which the Bureau would have no objection to seeing enacted into legislation, in that they would provide, in some limited respects at least, additional legislative sanction or, you might say, congressional blessing for work upon various aspects of the Government's budgeting and accounting procedures, where there is quite general agreement as to what our objectives are.

Those sections generally deal with the provisions that would provide for the use of accrual accounting and cost-based budgeting in the executive branch of the Government.

I think that is about as near as I can get to a capsule summary of our position on this bill, Mr. Chairman.

Senator THURMOND. Mr. Finan, how would an accrual accounting system work?

Mr. FINAN. The basic feature of an accrual accounting system, Mr. Chairman, would be one that would take into account goods and services received or consumed in connection with the execution of a particular program of Government, in contrast to what might be called obligation accounting, which primarily takes into account commitments that the Goverenment makes to spend or, in other words, orders placed or contracts let, and that sort of thing.

One of the big areas of the Government where this form of accountting is of particular significance is where inventories are of major importance in connection with the program.

Senator THURMOND. What is the difference between our present obligation system and the accrual accounting method of recording obligations?

Mr. FINAN. Principally, Mr. Chairman, that we currently primarily base our accounting upon an agency's obligations under a particular appropriation. In other words, you obligate funds when you issue an order or you sign a contract. In many cases, as you know, it may be months, and in some of our big programs where lead time is of very great importance, even years, before an item is delivered and the Government then either concurrently or subsequently is billed and has to pay for it. Accrual accounting places primary emphasis upon the rate of both goods and services.

Senator THURMOND. What advantage to the Government will result if we adopted a cost-based budgeting and an accrual accounting system?

Mr. FINAN. Principally in our opinion, Mr. Chairman, increased precision in control over the program itself and, as I have stated, in taking into account the rate of consumption of inventories.

To illustrate, an agency that begins a fiscal year and ends it with an inventory of about the same value would require, let us say, for the sake of illustration, $1 million. That same agency, if during that year it reduced its level of inventory by, again for the sake of illustration $500,000, would only actually require an additional $500,000 in funds to carry out the same program.

When you are concentrating strictly on obligation accounting, neither the expansion nor the contraction of inventory is taken account of in a determination of what a current year's funding requirements may be.

Senator THURMOND. Senator Cotton, do you have any questions you would like to ask?

Senator COTTON. I noticed you used the phrase in your brief summary of obtaining congressional blessing on this method. Do I assume from that that these changes could have been made without a statute passed by Congress? You could have put it into effect yourselves?

Mr. FINAN. These changes, Senator Cotton, installation of accounting on the accrual basis, are actually going forward at the present time. They are proceeding at a rate, however, which many consider to be inadequate. That was certainly the position of both the Hoover Commission itself and its task force.

I think it is a fair statement to say that in the main, the Hoover Commission recommended little in the way of a change in current policies or current objectives in our program for improving the Governments accounting and budgeting procedures. Their primary consideration ran to the rate at which these improvements were being placed into effect.

Senator COTTON. We are merely writing in the statute, and by passing the statute, adding impetus to something that you already can do and are doing?

Mr. FINAN. That is correct, sir.

Senator COTTON. Thank you, Mr. Finan.

Senator THURMOND. Do you have any questions, Mr. Scull?

Mr. SCULL. Mr. Finan, the Hoover Commission in its report on budgeting and accounting, estimates that the total savings which might accrue to the Federal Government if all the Hoover Commission recommendations in this area were effectuated would amount to approximately $4 billion. Have you any comment to make upon that estimate?

Mr. FINAN. Well, the first comment, Mr. Scull, is that it was my impression that it was not the Hoover Commission that made that estimate. It was the task force. The Hoover Commission printed it. But I understand the Commission was rather careful all the way through not to have the Commission itself specifically endorse any savings estimates.

Secondly, the task force apparently merely took the position that we have got an extremely large budget, and it would seem reasonable to assume that if you improved your budgeting and accounting procedures, you ought to be able to save, and I think they took a relatively small percentage figure, and applied that to the total budget, and estimated possible savings at about $4 million.

Mr. SCULL. $4 billion, I believe, sir.

Mr. FINAN. $4 billion; correct.

It is just a sweeping kind of estimate which you can neither support nor attack, so to speak, because there is no underpinning to it to analyze and determine how much validity there is to it.

Mr. SCULL. Do you believe the Bureau of the Budget could substantiate that estimate or document it?

Mr. FINAN. I would doubt it very much. I do not see how it lends itself to documentation.

Mr. SCULL. That is all, Mr. Chairman.

Senator THURMOND. Thank you very much, Mr. Finan.

Mr. FINAN. Thank you, Mr. Chairman.

Senator THURMOND. Mr. Robert F. Keller, from the General Accounting Office. Mr. Keller is assistant to the Comptroller General of the United States.

Mr. Keller, come forward, please. I believe you are accompanied by Mr. Brasfield, are you not?

Mr. KELLER. Mr. Chairman, Mr. Brasfield will give the position of the General Accounting Office on S. 3199.

Senator THURMOND. We will be glad to hear Mr. Brasfield.

Mr. BRASFIELD. Thank you, Mr. Chairman.

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL OF THE UNITED STATES

Mr. BRASFIELD. Mr. Chairman, I will follow the course of action you suggested to the previous witness if you so desire.

Senator THURMOND. It will be all right to summarize and place your entire statement in the record.

(The prepared statement of Mr. Brasfield is as follows:)

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to appear before you to discuss S. 3199, S. 2369, and S. 2480, which are designed to implement certain of the recommendations contained in the budget and accounting report of the Hoover Commission. We will deal first with S. 3199 which is the broadest one of the three bills.

We regard S. 3199 as basic legislation designed primarily to set forth general policies and objectives. Most of these policies and objectives would be put into practice under rules and procedures to be developed by the Bureau of the Budget and, in some cases, by the Comptroller General. In other words, the bill would prescribe no hard and fast procedures and the practical aspects would need to be worked out in collaboration with the agencies in the same general manner as other similar provisions of law are now applied. Moreover, there must necessarily be an evolutionary approach to the attainment of the objectives contemplated by the bill because not all agencies now have the necessary tools in the form of systems of programing, budgeting, and accounting that would be required. It is believed, however, that a statement of objectives of the character contained in the bill would do much to hasten the development of such working tools.

Section 1 (a) relates to comprehensive reports other than purely fiscal reports to be prepared by the Director, Bureau of the Budget.

Inasmuch as this section pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities, we believe this is a matter which can best be determined by the Bureau and the Congress. We suggest the desirability, however, that such information be obtained through the regular budgetary processes and be included in the President's annual budget.

Section 1 (b). This section would amend section 216 of the Budget and Accounting Act, 1921. If cost based budgets were used for management purposes in making fund allocations within the departments and establishments as proposed by section 216 (a), the information submitted for budgetary purposes would be substantially more meaningful. We endorse this proposal and will develop our discussion of it more fully in our comments on section 216 (c).

As to the proposed section 216 (b), we believe the President should be kept informed in a timely manner of significant factors relating to the operating agencies of the executive branch . However, the annual consideration of the budget would seem to be an appropriate vehicle for this purpose and we doubt the need for a separate report. We believe that the major program or bureau level is ordinarily the most meaningful basis for reporting purposes.

Proposed sections 216 (c) and (d), if effectively carried out, would offer a great opportunity for improvement in the financial management of executive agencies. Briefly, the more important advantages from the use of cost data in budgeting are:

1. Cost data (based on man-days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.

2. A proposed work plan (budget) stated in terms of costs (resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.

3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.

4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influence.

In using the term "cost based budgets" we understand it to have equal application to capital acquisitions and construction as it does to day-to-day operations. For example, a cost based budget for a procurement activity would relate to the cost of the items being procured or the cost of producing an article or a service. Cost budgeting need not be restricted to consumption operations. However, in considering consumption operations, there is obviously a limit to which the concept can be carried and still have a practical value. For example, careful consideration would need to be given to the extent to which the inclusion of depreciation as a cost would serve a useful purpose in the presentation of budgets to the Congress. This is particularly true with respect to the activities of the Department of Defense. The value and utility of cost based budgets are certainly not dependent upon the application of depreciation concepts to military hardware.

The primary advantage of budgeting on a cost basis to both management and the Congress is that total resources to be used (on hand, on order, and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures and costs in those many operations primarily concerned with personal services. On the other hand, dollarwise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets. Major procurement, construction and research, and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

It should be noted that agency budgets can be formulated and administered on a cost basis under present practices of stating appropriation authorizations on an obligation basis and this is currently being done in some cases. The cost presentation is confined to the justification material in the greater number of such instances. However, the impetus to furnish cost data to the Congress would be greatly enhanced by teaming up the cost based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 of the Hoover Commission Report on Budget and Accounting. This would provide the best opportunity for improved correlation of programing, budgeting, and accounting. We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis.

The best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and (3) costs for both in terms of total resources consumed. With this point of departure the budget can then be assessed in terms of (*a*) costs to be incurred, (*b*) resources already available in terms of inventories, etc., plus carried over funds, and (*c*) new money or

authority needed. The essential difference in this approach, which ties in with the recommendations for cost budgets and accrued expenditure appropriations, as contrasted with present practices based on appropriations stated in terms of obligation authority is the degree of emphasis which the latter places on new money rather than total resources to be consumed and the extent of resources already available.

The advantages of placing appropriations on an accrued expenditure basis are both tangible and intangible. The annual budget surplus or deficit is determined on the basis of expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress a much greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carryover balances now available for expenditure at the discretion of the executive agencies. The present situation concerning available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

It is inherent in the recommendations under discussion that congressional authority be granted for the advance planning which necessarily precedes the phase of operations covered in an annual accrued expenditure budget. In the past, this authority has been termed contract authorizations but it is a significant fact that heretofore both contract authorizations and subsequent appropriations were stated in terms of obligational authority whereas under the recommendations herein being considered only the initial authorization would be stated in terms of the broad and difficult to apply concept of obligations whereas annual authority could be stated much more definitely in terms of accrued expenditures because of the time factor. It is essential that the initial authority which may cover a forward period, sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and authorizations are practical when stated in terms of accrued expenditures. Thus, the current recommendations are not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

Section 1 (c): The proposed section 218 of the Budget and Accounting Act, 1921, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involve management decisions affecting that Bureau. We believe these are matters which can best be determined by the Bureau and the Congress and, accordingly, we offer no specific views in the matter.

Section 2 (a): Our comments above on the proposed sections 216 (c) and (d) are equally applicable to this section 2 (a). We, therefore, endorse the objective to obtain consistency in organizational structure, budget classifications, and accounting systems within each executive agency.

Section 2 (b): We endorse this amendment to section 113 of the Budget and Accounting Procedures Act of 1950. The maintenance of accounts on an accrual basis is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill. Experience under the joint accounting improvement program clearly indicates that the accrual basis, when applied to significant items, is a major factor in providing better control over resources and liabilities and is an essential element in obtaining adequate cost data. Our Statement of Accounting Principles provides for the appropriate use of the accrual basis. We also believe that adequate monetary property accounting records, as an integral part of accounting systems, are essential to several other proposed amendments such as accrual accounting, cost budgeting, etc., as well as the specific advantages to management which will result from adequate financial accounting for property.

Section 2 (c): The proposed section 120 of the Budget and Accounting Procedures Act of 1950 would establish a "Staff Office of Accounting" in the Bureau of the Budget. The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accountnig. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. The Budget and Accounting Procedures Act of 1950 recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comp-

troller General, for making continuing improvements in the financial management of Federal Government activities.

Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950, of establishing and maintaining adequate systems of accounting and internal control in conformity with the principles, standards and related requirements prescribed by the Comptroller General as referred to therein. Added emphasis on getting the job done Government-wide could be very helpful in expediting progress if appropriately carried out. We do not believe, however, that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of Assistant Director for Accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

The new section 121 of the Budget and Accounting Procedures Act of 1950, also proposed by section 2 (c) of the bill, would provide for the appointment of a comptroller in each executive agency. We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of the proposed section 121. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies.

Section 3: The simplification of the allotment system for allocating funds is sound and most desirable. The existing unwarranted subdivision of funds is one of the greatest deterrents to improved financial management. We believe that administrators may be willing to forego the type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control. Better programing tied in with improved accounting through the development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Section 4: This section would require each executive agency to maintain a single account under each appropriation title or fund. We endorse the objective of this proposal but feel that it should be adopted for only appropriations or funds which are stated on an accrued expenditure basis. We strongly favor the use of two accounts where such accounts are not stated on an accrued expenditure basis.

Section 5: This section would provide for a joint study by the Bureau of the Budget and the General Accounting Office relating to accounting and internal auditing. Much has been accomplished in these areas in the past by the General Accounting Office both on its own and under the joint accounting improvement program with the Bureau of the Budget and the Secretary of the Treasury. This work is carried on as a regular part of our comprehensive audit program and in the discharge of our accounting systems responsibilities. We expect to continue these studies and investigations. The results of these efforts are made available to the Congress through our regular reporting processes, but we would be pleased to cooperate with the Congress in any special effort having as its objective the improvement of accounting and internal auditing.

S. 2369 and S. 2480 are identical bills designed to implement recommendations Nos. 10, 11 and 12 of the budget and accounting report of the Hoover Commission. The objectives and most of the provisions are identical with sections 120 and 121 of S. 3199 which were covered in our discussion of that bill. S. 2369 and S. 2480 would provide for the Assistant Director for Accounting to be appointed by the President, by and with the advice and consent of the Senate. These two bills also would provide by statute the compensation of the comptroller to be appointed by the head of each executive agency. As stated before, although we agree with the objectives sought, we doubt the desirability of this legislation for the reasons cited earlier.

Mr. Brasfield. We appreciate the opportunity to appear before you to discuss S. 3199, which is designed to implement certain of the recommendations contained in the budget and accounting report of the Hoover Commission.

We regard S. 3199 as basic legislation designed primarily to set forth general policies and objectives. Most of these policies and objectives would be put into practice under rules and procedures to be developed by the Bureau of the Budget and, in some cases, by the Comptroller General.

In other words, the bill would precribe no hard and fast procedures, and the practical aspects would need to be worked out in collaboration with the executive agencies in the same general manner as other similar provisions of law are now applied.

Moreover, there must necessarily be an evolutionary approach to the attainment of the objectives contemplated by the bill because not all agencies now have the necessary tools in the form of systems of programing, budgeting, and accounting that would be required.

It is believed, however, that a statement of objectives of the character contained in the bill would do much to hasten the development of such working tools.

That, perhaps, is the important aspect of the legislation. In the parts of the bill that I will touch on briefly——

Senator COTTON. Mr. Chairman, could I be permitted to interrupt the witness for 1 second?

Senator THURMOND. Yes.

Senator COTTON. Would you mind?

Mr. BRASFIELD. I would be glad to have you do so.

Senator COTTON. Before you go into the details, your summary of the necessity and the impact of this legislation is not quite clear to me. I understand you to say, as Mr. Finan said, that the reforms or the changes contemplated in this bill that could be done without congressional action were being done to a certain extent, but that the passage of this bill would set up a general statement of objectives and would also give you certain working tools that you did not have before.

What do you mean by that last statement?

Mr. BRASFIELD. I meant to indicate this, sir, that knowing that this is the direction in which Congress wants to proceed, it will cause agencies to get busy and improve their accounting system to provide the framework and the base on which good cost budgeting and the things that go with it can come much more promptly.

I might illustrate that, for example, sir, in this way:

About a year and a half ago, the Appropriations Committee of the Senate indicated interest in real property, and provided for the committee to get together a report on it. The stimulus of that interest has done more to get accounting for property on the books than any other single thing I know.

Senator COTTON. You mean that until Congress or its committees begin to show a determined and active interest in a certain reform in our fiscal methods, it is difficult for the Bureau of the Budget and the General Accounting Office to bring about those reforms because it is difficult for them to get the prompt and enthusiastic cooperation of other departments? Is that a just statement?

Mr. BRASFIELD. I would add to that in this way, sir, if I may, that it depends on the department. In some cases you do not need that kind of stimulus. In others you need it very much.

Senator THURMOND. Senator Cotton, excuse me just a minute. Would you mind taking the chair for about 10 minutes? I have been called to my office.

Thank you.

Senator COTTON (presiding). I do not want to delay your testimony, but I just cannot help but wonder, if this is so good, why it has not been done before, and, if it has been the desire of the Bureau

of the Budget, the Accounting Office, and the fiscal agencies to do it, why it is necessary that Congress act, and what would be the significance of Congress' action. I want to understand clearly. Please understand me. I was not criticizing, but I was just trying to understand clearly the necessity and the impact of congressional action.

Mr. BRASFIELD. I would sum that up, sir, in this way: that we are moving ahead with these things. We have made substantial progress in some areas. Making it a part of the Budget process, for example, in the case of cost budgeting, and putting it in the Budget document as opposed to putting it in the justification material will add a great deal of stimulus.

Also, as it is now with the present budgeting practices, there is liable to be the feeling on the part of the agencies of an element of duplication on presenting the Budget on both the cost and an obligation basis, whereas, if they know that the Congress wants them on a cost basis, it will greatly stimulate that activity. That in turn will make them want to have the kind of accounting that will support those cost budgets.

In other words, it is a chain reaction proposition. It will add a great deal of strength to the effort.

Senator COTTON. In other words, this bill amounts to a mandate to the agencies to do something that they already had the power to do?

Mr. BRASFIELD. That is right.

Senator COTTON. Excuse me for interrupting. Go ahead, please.

Mr. BRASFIELD. There is another aspect that I will come to in a few minutes that I think may tie it together with congressional action more strongly, too.

Just to dwell briefly on the cost budget provisions, we think the important advantages in the use of cost data are briefly these: That cost data, based on man-days worked, materials used, and other physical measurements of that sort, can be directly related to work that is accomplished in prior periods, and offers a basis for comparison with the present work plan.

The cost data can be related to the responsibilities of segments of the organization, and cost budgeting permits the maximum opportunity for the exercise of management initiative in that it permits the agencies to get away from as great a tendency toward rigid fund control, which in turn is one of the most deadening influences that we have in endeavoring to get better management through the use of accounting as opposed to approaching the problem totally through the question of fund control.

There is one other facet to this that we feel is important, and perhaps so that there will be no misunderstanding of what our interpretation of cost-based budgets is, I would like to introduce this thought:

In using the term "cost-based budgets," we understand it to have equal application to capital acquisitions and construction as it does to day-to-day operations. For example, a cost-based budget for a procurement activity would relate to the cost of the items being procured or the cost of producing an article or service. Cost budgeting need not and should not be restricted to consumption activities. However, in considering consumption activities, there is obviously a limit to which the concept can be carried and still have a practical value.

For example, careful consideration would need to be given to the

extent to which the inclusion of depreciation as a cost would serve a useful purpose in the presentation of the Budget to Congress.

This is particularly true with respect to the activities of the Department of Defense. The value and utility of cost-based budgets are certainly not dependent upon the application of depreciation, and particularly to military hardware. I make that as a point of clarification.

In coming to the question of the need for congressional action, perhaps our views are somewhat different from those of other witnesses, in that we believe that the impetus to furnish cost data to Congress would be greatly enhanced by teaming up the cost-based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 of the Hoover Commission Report on Budgeting and Accounting.

We think this would provide the best vehicle for improved correlation of programing, budgeting and accounting. We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis.

Now, the question has been raised in previous testimony as to whether we were ready for that or not. We do not believe you will ever be ready at one time to sweep across the board. It is the kind of reform that should be taken item by item, and we think the appropriate way to do that is to put the idea in legislation, and then have it implemented as the agencies are ready for it, by the Bureau of the Budget, as other improvements are put into effect.

Senator COTTON. Now, you are referring to recommedation No. 7 of the Hoover Commission, which is that the executive budget and congressional appropriation be in terms of estimated annual accrued expenditures, namely, charges for the cost of good and services estimated to be received?

Mr. BRASFIELD. That is right, sir.

Senator COTTON. Now, that recommendation is not at present incorporated in this bill in its present form; right?

Mr. BRASFIELD. That is right, sir.

Senator COTTON. And it is your suggestion that this bill ought to be amended to include that recommendation?

Mr. BRASFIELD. That is right, sir. We think it will give strength and life to the other recommendations in the bill.

Senator COTTON. Now, you indicate first that perhaps some other agencies do not agree with you on this point?

Mr. BRASFIELD. We have in our testimony, as contrasted with those that you have heard ahead of us, expressed more enthusiasm for going ahead immediately with that provision than other witnesses.

Senator COTTON. You have also said that if this were included in the bill, you would not expect that it could be implemented overnight?

Mr. BRASFIELD. That is right.

Senator COTTON. It would take a little time?

Mr. BRASFIELD. That is right.

Senator COTTON. But it will be implemented and put into effect much more rapidly, if it goes into this bill; right?

Mr. BRASFIELD. That is right, sir.

Senator COTTON. Now, would you in ordinary terms for a layman tell us, sir, so that we can understand just what this implies, if you have any idea of what we would say?

Mr. BRASFIELD. I will address myself first to the change it would make in the character of the appropriation.

Senator COTTON. You have not put the amendment in?

Mr. SCULL. No, sir. It is not in the bill.

Senator COTTON. Is it in the record?

Mr. SCULL. No, sir. To clarify this, Mr. Brasfield, you are proposing that such an amendment be incorporated in the bill, are you not?

Mr. BRASFIELD. That is right, sir.

Mr. SCULL. That amendment has not been presented by the General Accounting Office to the staff of this subcommittee, has it?

Mr. BRASFIELD. That is right.

Mr. SCULL. Would the GAO prepare such an amendment and submit it to the subcommittee for its consideration?

(The amendment, to which reference is made above is incorporated in S. 3897, introduced May 21, 1956, by Senators Kennedy, Payne, et al., which supersedes S. 3199.)

Mr. BRASFIELD. We will be happy to.

Senator COTTON. But you have not now?

Mr. BRASFIELD. We have not, sir.

Senator COTTON. All right. Go ahead with your answer.

Mr. BRASFIELD. In discussing the amendments for the accrued-expenditure appropriations, there are both tangible and intangible advantages. First, the annual budget surplus or deficit is now determined on the basis of expenditures so that we now appropriate on one basis and determine the surplus or deficit on a different basis, so that you can never determine at the time appropriations are passed whether or not the budget has in fact been balanced by those appropriations.

It would establish a direct correlation between annual appropriations and expenditures. It would also vest in the Congress a much greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carry-over balances now available for expenditure at the direction of the executive agencies.

And that perhaps is the most significant change on the one basis of appropriation as opposed to the other.

The present situation concerning available balances stems from the fact that congressional control, through appropriation authorizations and Budget Bureau control through apportionments, are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

In the one case the process is based upon the authority to obligate. The proposed change to accrued expenditure appropriations would be based upon the estimate of goods and services to be received. In other words, it takes the lead time out of the appropriation of the current year.

Senator COTTON. The other day when we were considering another bill, Senator Symington kept using the illustration of fans. You may remember that.

Mr. BRASFIELD. Yes, sir.

Senator COTTON. I do not know why he should, during this weather. But suppose a department has an appropriation to buy and install fans in the appropriation for the fiscal year. Now, tell me, using that illustration, when you say that you are appropriating on one

method and then calculating your deficit on another—tell me how it would work with that one item of supply.

Mr. BRASFIELD. Let us assume first that the fans could be procured and installed in the year in which the appropriation applied, this current fiscal year. Then there would be no difference in one basis as opposed to the other. But let us suppose a second set of circumstances where the fans must be ordered at least a year ahead. Then the proposed plan would work like this:

The department would come to the Congress and say that for this current year we have this work plan, which would not include the fans, but we also intend to install fans next year, and we would like the authority to purchase the fans. The authority to pay for the fans would come in the next appropriation, and at that time you would know whether the fans are going to be delivered in that year, and would know more precisely exactly what was to be done with the fans.

If you stretch that out for a long lead time program, you constantly are faced with the lack of preciseness that plans pitched forward 4 or 5 years must necessarily have, and this would bring it down more to a common denominator in terms of a program to be carried out in the immediate year ahead.

Senator COTTON. And this recommendation No. 7, if it were enacted into law in this bill, would affect that particular illustration how?

Mr. BRASFIELD. First of all, if the fans were procured and installed in the same fiscal year, it would not change it at all. If it took a longer lead time and the agency needed authority to contract in advance, they would ask for that authority, and then when they asked for the appropriation to pay for them, that appropriation would be in the year the fans were going to be delivered.

The agency would know prices; they would know the time they were going to be delivered; they could ask rather precisely for the authority to pay for them.

Senator COTTON. Thank you.

You may proceed.

Mr. BRASFIELD. I think that is the important part of our statement that warrants discussion. The rest of it is pretty much dealing with the specific provisions of the bill, and I would not propose to add further unless you have some questions.

Senator COTTON. Mr. Scull has a question, I believe.

Mr. SCULL. Mr. Chairman I would like to go back to the Hoover Commission estimate of savings. It has been clarified that this was an estimate of the Hoover Commission task force. It is estimated that if all the task force recommendations were effectuated, a savings approaching $4 billion a year would result.

It appears to have been pretty well established this morning that this bill, S. 3199, as it stands, is more or less what might be termed a congressional mandate to the executive agencies expressing the will of Congress that the agencies implement the provisions in the bill, with possibly a few exceptions which would require legislative action.

If that is so, and if, as the task force points out, some $4 billion in savings is possible, I would like, Mr. Brasfield, to have your comments first, upon the validity or accuracy of such an estimate of savings; and second, upon the responsibility of the various executive agencies to achieve the estimated savings.

Would you like to speak to those points for a moment?

Mr. BRASFIELD. Yes, sir.

As to the estimate of savings, I think it is a fair statement to say that it could not be specifically documented as to just how those savings would occur.

Nevertheless, that statement does not deny the fact that savings could be achieved.

And the savings would come about by reason—and we are confronted with this problem constantly in dealing with the savings that come about by better management—by the things you do not buy, by knowing what you have got so that you decide that you do not need to buy them. These are not the type of savings that can be documented and added up, and come out with a precise and tangible figure.

Much the same thing is true with respect to the provisions of this bill and the addition of recommendation No. 7. We are dealing here with the things that they would not do if they had better management, and better knowledge of their inventories and a more precise planning of their budget, tied in better to costs.

Specific examples could undoubtedly be developed if such a program is carried forward. But as to summarizing them, you are confronted with the fact that you are trying to estimate the saving resulting from something you would not do if you had enough facts to make a better decision. So in that respect, it would always be speculative.

Mr. SCULL. Would you agree, sir, that it is very difficult to pinpoint savings based upon future change like this?

Mr. BRASFIELD. It would certainly be, and as a matter of fact, it could not be documented in the sense that I spoke of. You cannot document what you do not do nearly as well as you can document those things that you do.

Mr. SCULL. Mr. Brasfield, I would like to go for a moment to the Staff Office of Accounting. I do not believe you have mentioned that in your summary.

Mr. BRASFIELD. I did not mention that.

Mr. SCULL. But that recommendation is covered in your statement.

Mr. BRASFIELD. That is right.

Mr. SCULL. The Hoover Commission recommended the creation of a Staff Office of Accounting in the Bureau of the Budget, to supervise, in accordance with the Comptroller General's directives, as I understand it, the Government's accounting program throughout the executive branch.

Do you favor the creation of such an office?

Mr. BRASFIELD. Our view is that we would like to see the Bureau of the Budget equipped to take a more active part in stimulating accounting improvements in the executive branch. We would like to see them have the opportunity to strengthen both their position and their staff.

Based on the general principle that it is usually undesirable to put organization into legislation, we doubt the desirability of establishing the office by legislation. As far as the objectives are concerned, and the purpose, we think it is consistent with our joint accounting improvement effort, and if properly carried out, it would be helpful.

Mr. SCULL. Well——

Mr. BRASFIELD. We would be glad to work with them under such a program.

Mr. SCULL. Isn't the joint accounting program which is represented by the Bureau, by the General Accounting Office, and Treasury——

Mr. BRASFIELD. That is right.

Mr. SCULL. Isn't that program accomplishing the objectives that the Hoover Commission would like to accomplish through this Staff Office of Accounting in the Bureau of the Budget?

Mr. BRASFIELD. It is working toward those same objectives. How fast we achieve them and the accomplishment of them in some places is a difficult thing to do. In that sense, we would welcome any strength added to that effort by strengthening the position of the Bureau of the Budget.

However, I might add also that there would need to be legislation on recommendation No. 7. The joint accounting program could not accomplish that without legislation.

Mr. SCULL. That is stating expenditures on——

Mr. BRASFIELD. Appropriations on an accrued-expenditure basis.

Mr. SCULL. Stating appropriations on an accrued-expenditure basis?

Mr. BRASFIELD. That is right, which in turn is the key to emphasis behind cost-based budgeting.

Mr. SCULL. I am not quite clear on this point, sir. You would favor the creation of such a Staff Office of Accounting so as to strengthen the joint accounting program?

Mr. BRASFIELD. We would favor a stronger effort on the part of the Bureau of the Budget.

Now, the particular manner in which they carried it out in their organization, we think is more properly their decision. We see nothing incompatible about a Staff Office of Accounting with the objectives that the report provides as a part of the team working under the joint program.

Mr. SCULL. But you do not believe that the Congress should establish it by statute?

Mr. BRASFIELD. We question the desirability of establishing such offices by statute.

Mr. SCULL. As a matter of fact, has not the Director of the Bureau of the Budget now the authority to establish such an office?

Mr. BRASFIELD. I am not sure. We think he could accomplish the objectives of it. Perhaps it may be a question of resources.

Mr. SCULL. I, perhaps, should direct that question to the Bureau of the Budget.

Mr. BRASFIELD. That is right. I think they should comment on that.

Mr. SCULL. I would like to ask another question, Senator Cotton.

Senator COTTON. Yes.

Mr. SCULL. Do not executive agencies have comptrollers now——

Mr. BRASFIELD. Many of them do.

Mr. SCULL (continuing). Or an officer who is performing the functions of a comptroller?

Mr. BRASFIELD. Many of them do. Sometimes he is not known by that name. He might not have exactly or precisely the duties as con-

templated by the recommendation in the Hoover Commission report. He might have other duties and not have all the specific ones mentioned.

Mr. SCULL. The Hoover Commission recommends that comptrollers be established in each executive agency.

Mr. BRASFIELD. That is right.

Mr. SCULL. I cannot recall for the moment whether the Commission recommends that the Congress establish them or that the departments do so by administrative action.

Mr. BRASFIELD. The Hoover Commission report does not contain a legislative recommendation, but I am not sure they were intended to be set up that way.

Mr. SCULL. I would like to clarify this. Is it correct that at present the President by Executive order or the head of a department could establish such a position of comptroller in an executive agency, should he desire to do so, without legislative action?

Mr. BRASFIELD. I would think the answer to that is that he ordinarily can. There may be some particular statutes that describe some organization that would have to be changed for a particular agency.

The generalization is that the answer to your question is, yes, they could, and we think that would be a preferable way to do it.

Senator COTTON. Excuse me.

If you did it that way, would the Comptroller have the authority contemplated by the Hoover Commission in the absence of a willingness on the part of the department head to give him that authority voluntarily?

Mr. BRASFIELD. I think the answer to your question is that he would not unless the department head were willing to give it to him. Whether even if he had authority by law he could effectively exercise it if the department head did not cooperate or agree, is still another question.

I would like to point this out, if I may. In the Budget and Accounting Procedures Act of 1950, which is our current charter for the joint accounting program, it places upon the head of each agency the responsibility for developing an accounting system and, in effect, doing the things that we are talking about. That was the first legislation that specifically put that responsibility on the head of the agency. In effect, the law says to the head of the agency, "You have the responsibility to establish an accounting system within the general principles and standards laid down by the Comptroller General. Now you need to take steps that will effectively carry out your responsibilities as head of the agency."

Senator COTTON. But it would be far better for the President of the United States to insist on department heads having comptrollers and cooperating with them than for Congress to try to establish a set of comptrollers in agencies and guard against their being interfered with by the department head, because that would split up the responsibility of the agencies, would it not?

Mr. BRASFIELD. I think that is true. It would be much better for Congress to hold the head of the agency responsible.

Senator COTTON. Questions, Senator?

Senator MARTIN. No.

Mr. SCULL. A final question, sir.

Mr. Brasfield, as I understand it, to sum up very briefly, the GAO endorses the use of cost-based budgets in agencies?

Mr. BRASFIELD. We do.

Mr. SCULL. GAO endorses the accural accounting system?

Mr. BRASFIELD. We do.

Mr. SCULL. Throughout the executive agencies?

Mr. BRASFIELD. We do.

Mr. SCULL. And GAO recommends an amendment to provide for stating appropriations on an expenditure basis, which GAO believes is essential to the accomplishment of the first two, cost-based budgets and accural accounting?

Mr. BRASFIELD. We think it will stimulate them and add greatly to the actual accomplishment of them. We think it needs to be implemented gradually, but we think it would be desirable to lay the foundation in law at this time.

Senator COTTON. When will you have the amendment up to the staff of the subcommittee? When will it be convenient?

Mr. BRASFIELD. We can have it rather shortly.

(The amendment, which reference is made above is incorporated in S. 3897, introduced May 21, 1956, by Senators Kennedy, Payne, et al., which supersedes S. 3199.)

Senator COTTON. That is all. Thank you, Mr. Brasfield.

Mr. BRASFIELD. Thank you.

Senator COTTON. Mr. Finan, in view of these suggestions about recommendation No. 7, would you like to comment on them at this time?

Mr. FINAN. I would be glad to, Mr. Chairman.

STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR MANAGEMENT AND ORGANIZATION, BUREAU OF THE BUDGET—Resumed

Senator COTTON. You now, in your capacity as Assistant Director of the Bureau of the Budget, are going to comment on the suggested amendment to the bills suggested by Mr. Brasfield?

Mr. FINAN. Yes, sir.

Senator COTTON. Go ahead.

Mr. FINAN. Mr. Chairman, we are completely in accord with the General Accounting Office as to the ultimate objective toward which we are working. We think that if it is properly rooted in modern accounting systems, the time will come when benefits would flow both in an improved capacity on the part of the executive branch to administer the programs of the Government on the one hand, and, on the other, for the Congress effectively to control the budget through placing appropriations on an accrued-expenditure basis.

However, this is a concept which, within the Government, at least, is still relatively new. It is not well understood, as witnessed by some of the testimony before this subcommittee.

There are still relatively few agencies that have the accounting systems which would support this particular approach toward budgeting.

We also agree with the General Accounting Office that the enactment by the Congress of legislation of this kind would certainly provide a fresh stimulus to practically every aspect of our accounting improvement program. We are not prepared, however, at this point

to recommend to the Congress the enactment of legislation that would implement recommendation No. 7 of the Hoover Commission.

I think I can state on behalf of the Director that we would have no objection to such legislation if the Congress desired to enact it, especially along the lines that were suggested by the GAO that it be clearly recognized this would be a gradual process put in step by step, with the Budget Bureau making the determination as to when a particular agency had a system that would properly support this type of approach and would, in fact, approve control as distinct from losing control or diminishing control.

I think I also should add in that connection, in the exercise of authority of that kind, if it were given to the Budget Director, he would exercise it in the closest possible collaboration with the Appropriations Committees of Congress because, after all, the Appropriations Committees handle the budget on behalf of the Congress, and it would not only be improper, but highly undesirable, in our opinion, to lay budgets before the subcommittees of the two Appropriations Committees, which were in a form they did not want—where they wanted a different kind of presentation.

In other words, I think I can sum up our position by saying that we think we will get to the point where we will be asking for this kind of legislation one of these days. As of today, we are not asking for it. We would have no objection to it, provided, as I have said, it were clearly understood it was an authorization that would only be put into effect practically on an appropriation-by-appropriation basis, and over an extended period of time.

Let me illustrate: Today there are in the printed budget only four appropriations that are now set up on a cost basis, where the costs in these cases are reconciled to obligations. We do have agencies that cover somewhere between 35 and 40 different appropriations that are currently presenting justification material to the Budget Bureau on a cost-reconciled-to-obligation basis. And most of those agencies, I believe, are also presenting the same material to the Appropriations Committees. They do it wherever the committee wants it.

We have an additional group of agencies that have now reached the point where they have pretty sound and adequate accrual accounting systems, but they have not reached a stage where they are presenting justification material to the Bureau on a cost-reconciled-to-obligation basis.

In other words, we have got a fairly firm toe-hole on this problem, but not much more than that, and we would not want to give the impression there is such a strong underpinning here that all that is needed is a general agreement to move forward, and a revolution can take place overnight.

Senator COTTON. Is this what you are suggesting, that if anything is incorporated in the present bill on this subject, it should be a declaration of congressional desire and intent rather than a mandatory provision for the installation of the new system?

Mr. FINAN. That is correct, sir.

Senator COTTON. You do not understand how we are going to pass the statute and say, "This is the law, but you need not hurry about obeying it"? In other words, we have to not put it in at all, make a declaration of congressional intent, or make it an item of legislative provision. There are no other alternatives, are there?

Mr. FINAN. The only other alternative, if there is an alternative, is the one described by Mr. Brasfield, that is, where it is described as congressional policy to move toward this objective, but with control machinery built into it, so that we only move when we have got a really solid underpinning for it.

As Mr. Stewart indicated in his testimony before the subcommittee the other day regarding the so-called performance budget, and I think we would agree with him, that what we did there was to attempt to carry out a concept which was not well understood, and before anybody was really ready for it, and in the doing of that, we generated a great deal of objection and criticism which would not have taken place if we had gone about it in, shall we say, a more moderate manner, and only when we really had a solid underpinning and a clear understanding, not only within the executive agencies affected, but within the congressional committees affected, before we tried to move ahead.

Senator COTTON. Does that mean that your feeling is that an attempt to incorporate this amendment in this bill at this time might do more harm than good?

Mr. FINAN. I am not sure that I would describe my position that way. If it gave the impression that we were very close to what, I think everybody would agree, would be a revolutionary overhaul of our whole budget process, I think that would be a mistake, because we are not.

Just to illustrate, you have to do first things first, and we are endorsing, and strongly endorse, the policy of getting property accounting on a monetary basis and integrated into the basic accounting of the agency. You cannot even move toward a cost budget or an accrual accounting system until you have done that, and all of those things have to be done before you can talk seriously about appropriating on an expenditure basis. And I think perhaps it is not as exaggeration to say that in the field of property accounting, generally speaking, the executive branch is weaker perhaps than in any other single accounting or budgeting field that you might mention.

Senator COTTON. Of course, we haven't it in the form of a proposed amendment, but assuming that the amendment as submitted by the General Accounting Office was a declaration of Congressional policy and a setting up of the necessary machinery to implement that policy, as and when it could be made practical to do so, would your Bureau be for or against that amendment?

Mr. FINAN. We would have no objection to such an amendment, Mr. Chairman. I think I might also add that we would want to see that there were included in it adequate controls over the process of committing the Government to spend.

You will understand that when you have reached the point of expenditure, the commitment has been made. Somebody issued an order months or years ago, or somebody signed a contract.

Currently, the so-called obligation appropriation puts the point of control there. We would want some substitute method of control included at that point, even though we had switched the appropriation control over to the expenditure point, because you——

Senator COTTON. Would you be willing to collaborate with GAO in the drafting of such a bill?

Mr. FINAN. We will be delighted to see what we could do, yes, sir.

Senator COTTON. Have you any comments on that, Mr. Brasfield?

Mr. BRASFIELD. We would be happy to collaborate with them on it.

Senator COTTON. Senator Martin?

Senator MARTIN. I do not care to ask anything.

Senator COTTON. Mr. Scull?

Mr. SCULL. Mr. Finan, I would like to have your views on the creation of a Staff Office of Accounting, very briefly, if you would give them to us.

Mr. FINAN. I can cover that very briefly, Mr. Scull. Such an office has now been established in the Budget Bureau.

Mr. SCULL. It is known as the Accounting Group?

Mr. FINAN. No. It actually has not as yet been designated as the Staff Office of Accounting. But you recall, the significant point in the Hoover Commission recommendation was that an Assistant Director of the Bureau be placed directly in charge of our accounting activities. As of about a week ago, the Director made such a change, and Assistant Director Rappaport, who is an accountant of considerable experience and standing, and who is an Assistant Director of the Budget Bureau, is now in charge of our Accounting Group and our accounting program.

Mr. SCULL. We have, then, in the Bureau of the Budget what amounts to a Staff Office of Accounting, now?

Mr. FINAN. That is right.

Mr. SCULL. Does that officer discharge the duties that the Hoover Commission recommended that such a Staff Office of Accounting should discharge, in supervising accounting through the executive branch?

Mr. FINAN. Substantially so. I am not sure that the word "supervision" is entirely appropriate.

There was one recommendation of the Hoover Commission which in my judgment was generally misunderstood. If the Hoover Commission meant what I am convinced in my own mind that they meant, then he also has that responsibility, and that is for assisting agencies to locate and employ topflight personnel for their top financial management jobs. That has been interpreted by some as meaing that we would exercise some kind of control over the selection. Either we would dictate the employment or we would have a veto authority over it. We think either arrangement would be totally inappropriate.

To the extent that we are talking about providing assistance, which I am convinced is what the Commission meant, that responsibility is also included.

Mr. SCULL. That would be an infringement upon the responsibility of the Department heads; would it not?

Mr. FINAN. Of course.

Mr. SCULL. That is all, Mr. Chairman.

Senator COTTON. I just want to get one thing clear in my own mind. It is your feeling that recommendation No. 7 of the Hoover Commission is desirable as soon as it can be reasonably and practicably done; is that right?

Mr. FINAN. As soon as we have solid footing for it, and as soon as it is widely understood and accepted, not only within the executive branch, but within the Congress.

Senator COTTON. But you feel it is desirable?

Mr. FINAN. Yes, sir.

Senator COTTON. And is it not likely to come about more speedily if some legislation is passed that puts Congress, which includes its Appropriations Committees, squarely behind it as a policy, than it will if it is left to come about otherwise?

Mr. FINAN. I think there is no doubt about that, Mr. Chairman. What I would be concerned about is that in an effort to move on this before we are sure it is fully understood and accepted, a controversy is generated and we get a flat congressional rejection—we then might be worse off than we are today with the Congress, shall we say, in a somewhat neutral position on the matter.

Senator COTTON. I see. Thank you.

Mr. Heffelfinger, the Fiscal Assistant Secretary of the Treasury.

Mr. HEFFELFINGER. Good morning, Mr. Chairman.

Senator COTTON. We appreciate your being with us, Mr. Heffelfinger. Is it your desire to read your statement in full and then discuss it, or would you prefer to put the statement in the record and summarize it and discuss it?

Mr. HEFFELFINGER. It is a very short statement. I would be glad to read it, and then submit it for the record, sir.

I might say that I have with me, Mr. Gilbert L. Cake, who is our associate commissioner of accounting.

Senator COTTON. We are glad to have him with us. We will be glad to have you proceed.

STATEMENT OF WILLIAM T. HEFFELFINGER, FISCAL ASSISTANT SECRETARY OF THE TREASURY; ACCOMPANIED BY GILBERT L. CAKE, ASSOCIATE COMMISSIONER, BUREAU OF ACCOUNTS, DEPARTMENT OF THE TREASURY

Mr. HEFFELFINGER. These are the views of the Treasury Department on S. 3199, a bill to improve governmental budgeting and accounting methods and procedures and for other purposes, contained in a letter dated March 21, 1956, from the Acting Secretary of the Treasury to the subcommittee.

I will summarize the letter:

The bill would put into effect most of the recommendations on budgeting and accounting made by the Commission on Organization of the Executive Branch of the Government in its report to the Congress dated June 1955. In replying recently to a request of the House Committee on Government Operations for comments on the Commission's report, the committee was told that the Treasury is not in complete agreement with the recommendation for organizing the accounting function but that it is in favor of the specific suggestions for simplifying and improving accounting procedures.

These views are elaborated in more detail in the statement appended to the letter, as follows:

Sections 1 (a) and 2 (c) of the bill would carry out recommendations Nos. 10, 11, 12 and 22 of the Commission for the establishment of an Office of Accounting in the Bureau of the Budget, the establishment of the position of comptroller in the principal agencies of the Government, and the preparation by the Bureau of the Budget of certain overall financial reports.

From the standpoint of sound organization and desirable checks and balances, the executive branch should have full control over the type of accounting systems it deems necessary for management purposes. Moreover, the audit func-

tion of the Comptroller General of the United States is weakened by the fact that he must, by law, prescribe accounting systems which he is required to audit. Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transferred by law to the executive branch.

I would like to say at this point, Mr. Chairman, that this is a basic organizational problem. We have no objection to the present arrangement under which the agencies are responsible for their accounting systems, subject to the prescription of standards by the General Accounting Office. That arrangement has been working well under the joint accounting program. We feel that we have accomplished great strides in improving Government accounting under the present setup.

We do fear that if Congress should legislate a division of those responsibilities, placing certain responsibilities in the Bureau of the Budget and leaving other responsibilities to the Comptroller, it might be difficult for the agencies to know where they are responsible in their accounting, to the Bureau of the Budget or to the Comptroller General. Rather than see a transfer and splitup of those functions made, we feel that it should all go to the Executive or remain where it is. The statement continues:

The Treasury does not believe it is necessary or desirable to require the establishment of the position of comptroller in all agencies regardless of the need or circumstances which might prevail in a particular agency. Such action would be a retrogressive step from the progress already made in the direction of making the heads of agencies responsible for proper internal organization and alinement of functions. For example, Reorganization Plan No. 26 of 1950 places such responsibility on the Secretary of the Treasury. Therefore, if the position of comptroller should be considered necessary or desirable, legislation would not be necessary to establish the position and functions.

On the matter of financial reporting, it is not clear just what is meant by comprehensive reports, other than purely fiscal reports which the bill would require the Director of the Bureau of the Budget to prepare. By virtue of the nature of the Treasury's operations as the financial department of the Government, it is the source of a great deal of fiscal data and the focal point of much of the Government's accounting. Therefore, it is not only logical but practical for the Treasury to be the operating center of accounting and financial reporting as provided for in the Budget and Accounting Procedures Act of 1950. In this connection, the Treasury now prepares various central reports pertaining to receipts and expenditures, the status of appropriations, the public debt, foreign currencies, assets and liabilities of executive agencies, long-range commitments and contingencies, and other reports having to do with the Government's finances from an overall standpoint. There appears to be no real necessity or advantage to make the Bureau of the Budget, which is essentially a staff agency of the President, an operating agency instead of the Treasury in this respect.

It appears that the duties imposed on the Assistant Director for Accounting (in the Bureau of the Budget) by section 2 (c) would overlap the present statutory duties and authority of the Comptroller General as specified in the Budget and Accounting Act, 1921, the Federal Property and Administrative Services Act, 1949, the Post Office Financial Control Act of 1950, and the Budget and Accounting Procedures Act of 1950. Also, as the bill is written, section 1 (a) would overlap the statutory duties of the Secretary of the Treasury regarding financial reporting as specified in the Budget and Accounting Procedures Act of 1950 and other laws. It seems inevitable that enactment of the bill, without clearing up the question of a realinement of authority and responsibilities, would lead to uncertainties and disputes due to jurisdictional conflicts—particularly where the General Accounting Office as an agent of Congress is concerned. The Treasury believes that the various executive departments and agencies should not be placed in the position of not knowing precisely to what central authority they must look in the matter of accounting and reporting requirements.

In addition to these fundamental reservations, the Treasury is opposed to those provisions of section 2 (c) which would require the Assistant Director for Accounting to: (*a*) Set schedules for performance of functions in the administrative agencies without confining the functions involved to accounting and report-

ing; and (*b*) to assist actively in the selection, training and retention of capable personnel in the administrative agencies, which is viewed as an infringement on the responsibilities of such agencies.

The Treasury is in general agreement with the objectives of sections 1 (b), 2 (a), 2 (b) and 3 of the bill, which are to increase congressional and executive control over expenditures. These sections would carry out eight recommendations of the Commission, which in essence are:

Recommendation No. 2—Agencies should make annual operating reports to the Bureau of the Budget which in turn should report to the President on performance for the executive branch as a whole.

Recommendation No. 3—Cost-based operating budgets, supplemented by performance reports, should be used internally by agencies.

Recommendation No. 4—A performance type Executive budget should continue to be used and should be adequately supported by program costs and accomplishment.

Recommendation No. 5—Agencies should synchronize their organization structures, budget classifications and accounting systems.

Recommendation No. 6—Agency budgets should be formulated and administered on a cost basis.

Recommendation No. 13—The allotment system should be greatly simplified.

Recommendation No. 14—Accounting, budgeting and financial reporting should be on an accrual basis.

Recommendation No. 16—Agencies should install monetary property accounting.

Section 1 (c) of the bill would carry out recommendation No. 1 (b) of the Commission that qualified employees of the Bureau of the Budget be placed in important agencies as working contacts. The Bureau of the Budget already has close working relationships on budgetary matters with the executive agencies and the Treasury doubts that the advantages of implementing this recommendation would warrant the added expense.

Section 4 of the bill would carry out recommendation No. 17 of the Commission that the accounting for the payment of old claims, under each appropriation title, be simplified. Two bills, S. 3362 and H. R. 9593, have been introduced in the Congress to implement not only this recommendation but also recommendation No. 18 of the Commission to simplify the payment of certain claims. The Treasury collaborated with the Bureau of the Budget and the General Accounting Office in the drafting of such legislation.

Section 5 (a) (1) of the bill would give effect to recommendation No. 20 of the Commission that the Bureau of the Budget and the General Accounting Office make a study with the view to eliminating duplication of accounting in the Treasury and between the Treasury and other agencies. The Treasury is, of course, in favor of the elimination of duplication. The joint accounting program is dedicated to the elimination of duplication in accounting, and related paperwork and procedures, wherever it may exist in or between agencies of the Government, including the Treasury Department. Major accomplishments under this policy are described in the annual reports of progress of the joint program. Hence, the Treasury does not believe that additional studies, as recommended by the Commission, are necesary.

Section 5 (a) (2) of the bill would carry out recommendation No. 25 of the Commission that the Bureau of the Budget and the General Accounting Office make a study to determine the adequacy of internal auditing in agencies. The Treasury would have no objection to such a study.

That, Mr. Chairman, embodies the Treasury's views, and I submit this for the record.

Senator COTTON. Thank you, Mr. Secretary.

Referring to the last sentence in the second paragraph of your prepared statement—

Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transferred by law to the executive branch—

it is not quite clear to me what you mean by that statement. There is nothing in the present bill that deals with that. Is it your suggestion that the bill should do that?

Mr. HEFFELFINGER. Well, we felt that the bill probably has some areas which are not clear in the setting up in the Bureau of the Budget of an Assistant Director to exercise functions in the accounting field, and we thought that might give rise to the difficulty of interpreting his sphere of jurisdiction and the Accounting Office's sphere of jurisdiction.

Senator COTTON. Would you indicate what sections of the bill, what provisions raise that problem?

Mr. HEFFELFINGER (reading):

There is hereby established—

this is section 2 (c) on page 5 of the bill—

a Staff Office of Accounting.

SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting, to be appointed by the President, and to receive compensation at the rate of $ per annum.

Then it goes on to follow:

It shall be the duty of the Assistant Director for Accounting—(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part; (2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan; (3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress; (4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and (5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require with respect to the status of accounting in each of the executive agencies.

Senator COTTON. Mr. Scull, will you explore this matter briefly?

Mr. SCULL. Yes.

Mr. SCULL. Mr. Heffelfinger, the Treasury objects to the creation of a Staff Office of Accounting; is that correct, sir?

Mr. HEFFEFINGER. We feel that it may lead to the development of a situation that may be difficult in the years to come, in having two agencies of the Government operating in the field of accounting. We know that we have responsibility in the Comptroller General, and we feel that the present arrangement under which the Bureau of the Budget and the Treasury are working very cooperatively with the General Accounting Office, is working well.

It is necessary in this joint program to have the support of the Bureau of the Budget, and they have been very helpful in their support. If all that is intended in just to write into the legislation that the Bureau of the Budget shall continue their support, that is one thing. But if there is a desire and an effort made to transfer and divide the responsibility, we think that is bad.

Mr. SCULL. To be certain that I understand correctly, I would like to read your statement again:

Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transferred by law to the executive branch——

The setting up of a Staff Office of Accounting would not necessarily transfer the present authority of the Comptroller Gen-

eral, but it would certainly increase the responsibility, if not the authority of the Bureau of the Budget, over accounting, would it not?

Mr. HEFFELFINGER. That may be where we would run into difficulties. I do not think that the present bill is intended to transfer authority from the Comptroller General. But if the Bureau of the Budget should interpret it as transferring authority, then we get into difficulties. You have two agencies to deal with.

Mr. SCULL. Of course, section 2 (c), I believe it is——

Mr. HEFFELFINGER. That is right.

Mr. SCULL. Section 2 (c) states that this Assistant Director of Accounting shall develop and promulgate an overall plan for accounting which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General.

Would that not leave the authority over the Staff Office of Accounting in the Comptroller General's hands?

Mr. HEFFELFINGER. Yes. But it also would give rise to just how far does the authority of the Budget Bureau and how far does the authority of the Comptroller extend.

Mr. SCULL. Let me get back to your statement again, Mr. Heffelfinger.

You state that the Treasury believes that the present authority of the Comptroller General over accounting should be transferred to the executive branch?

Mr. HEFFELFINGER. If there is any change to be made in the existing situation.

Mr. SCULL. In other words, you would relieve the Comptroller General of his present authority over accounting within the executive branch.

Mr. HEFFELFINGER. You say, leave him?

Mr. SCULL. Relieve him.

Mr. HEFFELFINGER. Yes, if the Congress wants to make any changes in the accounting field. That is consistent with the earlier recommendations, I believe, of the Hoover Commission.

Mr. SCULL. To whom should the authority go? The Treasury?

Mr. HEFFELFINGER. No, we don't advocate that the Treasury have that authority.

Mr. SCULL. The Bureau of the Budget?

Mr. HEFFELFINGER. To the Bureau of the Budget, the only other agency in the executive branch, yes; we feel it should be in the Comptroller or in the Budget, but it should not be spread between the two with the possibility of conflict of interest.

Senator THURMOND (presiding). Mr. Heffelfinger, wasn't the original idea of setting up the position of the Comptroller General that it should be an arm of the Congress?

Mr. HEFFELFINGER. That is right.

Senator THURMOND. In order to serve the Congress?

Mr. HEFFELFINGER. That is true, sir.

Senator THURMOND. You are now recommending that that be changed?

Mr. HEFFELFINGER. No, sir. We feel that the Comptroller General should audit the agencies, and the agencies have the responsibility of conducting their affairs and be responsible for that, including the accounting systems which are necessary to accomplish that fact. We

feel that the Comptroller General should be free to come in and audit and criticize those systems if they are not proper.

Senator THURMOND. Senator Martin?

Senator MARTIN. No, I have nothing, except this. You think that the present law is better balanced than this suggestion and proposal?

Mr. HEFFELFINGER. That is our point.

Senator THURMOND. Senator Cotton, do you have any more questions?

Senator COTTON. Just a few, Senator.

I wonder this, Mr. Secretary. You have heard the discussion that we have had previously with Mr. Finan and Mr. Brasfield about recommendation No. 7.

Mr. HEFFELFINGER. Yes, sir.

Senator COTTON. Would you care to comment on that?

Mr. HEFFELFINGER. The Treasury is in general agreement with the objectives of that recommendation. We subscribe to the views of the Budget and the General Accounting Office. It is a change that you cannot make overnight. The magnitude of the Government is too big to make an overnight change. We feel it is a long-term program, one that has been going on now for some few years under the joint accounting program, and we have made accomplishments in that direction.

In the final analysis, it is a matter for Congress to determine whether they want to budget and control appropriations on that basis; and with legislation along those lines indicating the desire of Congress to proceed in this direction, which we feel is better control in the long run than we now are getting through the obligating procedures, it might be a long-range advantage to the Congress and the Executive, knowing just what programs are costing.

Senator COTTON. You think that the time has arrived for a declaration of policy by the Congress on this point now? Or do you think——

Mr. HEFFELFINGER. I think that would be desirable, because there has been a great deal of progress made in this direction in a number of agencies.

Now, if Congress is not going to accept this philosophy of budgeting, probably it should indicate it at this point. Nevertheless, for management purposes, it is still a good system to predicate your accounts on.

Senator COTTON. And it would be the recommendation of the Treasury Department to the Congress that this recommendation would be clearly beneficial?

Mr. HEFFELFINGER. We think so.

Senator COTTON. Thank you.

Senator THURMOND. Mr. Scull?

Mr. SCULL. Sir, would you collaborate with the GAO and the Bureau of the Budget in the drafting of such an amendment for the subcommittee?

Mr. HEFFELFINGER. We would be happy to.

(This amendment is incorporated in S. 3897, introduced May 21, 1956, by Senators Kennedy, Payne, et al, which supersedes S. 3199.)

Mr. SHRIVER. Mr. Chairman.

Senator THURMOND. Go ahead, Mr. Shriver.

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Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Heffelfinger, in connection with this joint accounting improvement program which was referred to a while ago, you knew that the staff and the Senate Government Operations Committee really got that program off the ground several years ago. Now, do you think this legislation would stimulate the activities of that group or prod the agencies into installing accounting and budgeting on an accrual basis, and revising the appropriation structure? Do you think this bill is what is needed to get this new system started?

Mr. HEFFELFINGER. We do not need anything to stimulate this joint group. They are working day and night in this direction, and I think they have made great strides. There are still areas where it is hard to make further progress, and I think some indication from Congress that this is the direction that you approve of would be helpful to the joint program.

Mr. SHRIVER. Do you believe it would be more effective to pass a general bill to overhaul the budget and accounting system than just put something in a report of this subcommittee?

Mr. HEFFELFINGER. That is a determination of the subcommittee, as to whether it should be put in legislation. It would be unfortunate to put it in legislation with rigidity. If it could be put in in some general expression of policy by the Congress rather than with rigid requirements, I think that would be helpful.

Mr. SHRIVER. Do you believe the language in this bill with respect to the maintenace of accounts on accrual basis, this broad general language, is better than to try to spell it out in detail in a bill?

Mr. HEFFELFINGER. I think it would be, yes.

Mr. SHRIVER. Is it your belief that the same thing holds true for preparing a budget on a cost basis?

Mr. HEFFELFINGER. I think so.

As Mr. Finan pointed out, it will take a long period of education to get people accustomed to these new forms of procedures.

Senator COTTON. Are you going into another subject matter now?

Mr. SHRIVER. No; I was going to pursue the same subject a little further.

Senator COTTON. Could I interpolate one suggestion, or a question?

Mr. SHRIVER. Surely, go right ahead, Senator Cotton.

Senator THURMOND. Go ahead.

Senator COTTON. In reply to the question about whether this incorporation of recommendation No. 7 should be incorporated in the act or simply be a recommendation to be incorporated in the report of the committee, it is my understanding from previous testimony—and I am wondering if you will agree—that it is highly important if this recommendation is eventually to work that it be satisfactory to, and have the cooperation of, the Appropriations Committees of the Senate and House and the subcommittees; otherwise, you would meet with innumerable obstacles; is that not correct?

Mr. HEFFELFINGER. That is true, because they are the prime users of the data that is included in the budget which is submitted to the Congress.

Senator COTTON. So if this subcommittee simply incorporated in a report "it is the policy of this subcommittee that it be followed," it would hardly give the assurance to the Bureau of the Budget and the

General Accounting Office and the Treasury and all the fiscal agencies involved, of congressional intent that we would have if an act passed presumably upon which all the members of the Appropriations Committee would have a full opportunity to collaborate?

Mr. HEFFELFINGER. That is true.

Mr. SHRIVER. That is right, Senator Cotton.

Thank you, Mr. Chairman.

Senator THURMOND. Thank you very much, Mr. Heffelfinger.

The subcommittee will now recess until 10 o'clock tomorrow morning when it will resume hearings in room 357, Senate Office Building.

Mr. HEFFELFINGER. Thank you, sir.

(Letter, March 21, 1956, from Hon. W. Randolph Burgess, Acting Secretary of the Treasury, to Hon. John F. Kennedy, and statement summarized by Mr. Heffelfinger, follows:)

TREASURY DEPARTMENT,
Washington, March 21, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of February 21 requesting the Department's views on S. 3199, a bill to improve governmental budgeting and accounting methods and procedures and for other purposes.

The bill would put into effect most of the recommendations on budgeting and accounting made by the Commission on Organization of the Executive Branch of the Government in its report to the Congress dated June 1955. In replying recently to a request of the House Committee on Government Operations for comments on the Commission's report, the committee was told that the Treasury is not in complete agreement with the recommendation for organizing the accounting function but that it is in favor of the specific suggestions for simplifying and improving accounting procedures.

The Treasury's views on the provisions of S. 3199 are furnished in the attached memorandum.

It has not been possible to obtain the customary Bureau of the Budget clearance prior to the submission of this report.

Very truly yours,

W. RANDOLPH BURGESS,
Acting Secretary of the Treasury.

VIEWS OF THE TREASURY DEPARTMENT ON S. 3199, A BILL TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES AND FOR OTHER PURPOSES

Sections 1 (a) and 2 (c) of the bill would carry out recommendations Nos. 10, 11, 12, and 22 of the Commission for the establishment of an office of accounting in the Bureau of the Budget, the establishment of the position of comptroller in the principal agencies of the Government, and the preparation by the Bureau of the Budget of certain overall financial reports.

From the standpoint of sound organization and desirable checks and balances, the executive branch should have full control over the type of accounting systems it deems necessary for management purposes. Moreover, the audit function of the Comptroller General of the United States is weakened by the fact that he must, by law, prescribe accounting systems which he is required to audit. Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transfered by law to the executive branch.

The Treasury does not believe it is necessary or desirable to require the establishment of the position of comptroller in all agencies regardless of the need or circumstances which might prevail in a particular agency. Such action would be a retrogressive step from the progress already made in the direction of making the heads of agencies responsible for proper internal organization and alinement of functions. For example, Reorganization Plan No. 26 of 1950 places such rseponsibility on the Secretary of the Treasury. Therefore, if the position of comptroller should be considered necessary or desirable, legislation would not be necessary to establish the position and functions.

On the matter of financial reporting, it is not clear just what is meant by "comprehensive reports, other than purely fiscal reports" which the bill would require the Director of the Bureau of the Budget to prepare. By virtue of the nature of the Treasury's operations as the financial department of the Government, it is the source of a great deal of fiscal data and the focal point of much of the Government's accounting. Therefore, it is not only logical but practical for the Treasury to be the operating center of accounting and financial reporting as provided for in the Budget and Accounting Procedures Act of 1950. In this connection, the Treasury now prepares various central reports pertaining to receipts and expenditures, the status of appropriations, the public debt, foreign currencies, assets and liabilities of executive agencies, long-range commitments and contingencies, and other reports having to do with the Government's finances from an overall standpoint. There appears to be no real necessity or advantage to make the Bureau of the Budget, which is essentially a staff agency of the President, an operating agency instead of the Treasury in this respect.

It appears that the duties imposed on the Assistant Director for Accounting (in the Bureau of the Budget) by section 2 (c) would overlap the present statutory duties and authority of the Comptroller General as specified in the Budget and Accounting Act, 1921, Federal Property and Administrative Services Act, 1949, Post Office Financial Control Act of 1950, and Budget and Accounting Procedures Act of 1950. Also, as the bill is written, section 1 (a) would overlap the statutory duties of the Secretary of the Treasury regarding financial reporting as specified in the Budget and Accounting Procedures Act of 1950 and other laws. It seems inevitable that enactment of the bill, without clearing up the question of a realinement of authority and responsibilities, would lead to uncertainties and disputes due to jurisdictional conflicts—particularly where the General Accounting Office as an agent of Congress is concerned. The Treasury believes that the various executive departments and agencies should not be placed in the position of not knowing precisely to what central authority they must look in the matter of accounting and reporting requirements.

In addition to these fundamental reservations, the Treasury is opposed to those provisions of section 2 (c) which would require the Assistant Director for Accounting to: (*a*) set schedules for performance of functions in the administrative agencies without confining the functions involved to accounting and reporting; and (*b*) to assist actively in the selection, training and retention of capable personnel in the administrative agencies, which is viewed as an infringement on the responsibilities of such agencies.

The Treasury is in general agreement with the objectives of sections 1 (b), 2 (b), and 3 of the bill, which are to increase congressional and executive control over expenditures. These sections would carry out eight recommendations which in essence are:

Recommendation No. 2

Agencies should make annual operating reports to the Bureau of the Budget which in turn should report to the President on performance for the executive branch as a whole.

Recommendation No. 3

Cost based operating budgets, supplemented by performance reports, should be used internally by agencies.

Recommendation No. 4

A performance-type executive budget should continue to be used and should be adequately supported by program costs and accomplishment.

Recommendation No. 5

Agencies should synchronize their organization structures, budget classifications and accounting systems.

Recommendation No. 6

Agency budgets should be formulated and administered on a cost basis.

Recommendation No. 13

The allotment system should be greatly simplified.

Recommendation No. 14

Accounting, budgeting, and financial reporting should be on an accrual basis.

Recommendation No. 16

Agencies should install monetary property accounting.

Section 1 (c) of the bill would carry out recommendation No. 1 (b) of the Commission that qualified employees of the Bureau of the Budget be placed in important agencies as working contacts. The Bureau of the Budget already has close working relationships on budgetary matters with the executive agencies and the Treasury doubts that the advantages of implementing this recommendation would warrant the added expense.

Section 4 of the bill would carry out recommendation No. 17 of the Commission that the accounting for the payment of old claims, under each appropriation title, be simplified. Two bills, S. 3362 and H. R. 9593, have been introduced in the Congress to implement not only this recommendation but also recommendation No. 18 of the Commission to simplify the payment of certified claims. The Treasury collaborated with the Bureau of the Budget and the General Accounting Office in the drafting of such legislation.

Section 5 (a) (1) of the bill would give effect to recommendation No. 20 of the Commission that the Bureau of the Budget and the General Accounting Office make a study with the view to eliminating duplication of accounting in the Treasury and between the Treasury and other agencies. The Treasury is, of course, in favor of the elimination of duplication. The joint accounting program is dedicated to the elimination of duplication in accounting, and related paperwork and procedures, wherever it may exist in or between agencies of the Government, including the Treasury Department. Major accomplishments under this policy are described in the annual reports of progress of the joint program. Hence, the Treasury does not believe that additional studies, as recommended by the Commission, are necessary.

Section 5 (a) (2) of the bill would carry out recommendation No. 25 of the Commission that the Bureau of the Budget and the General Accounting Office make a study to determine the adequacy of internal auditing in agencies. The Treasury would have no objection to such a study.

(Whereupon, at 11:25 a. m., the subcommittee recessed to reconvene at 10 a. m., Tuesday, March 27, 1956.)

BUDGETING AND ACCOUNTING

TUESDAY, MARCH 27, 1956

United States Senate,
Subcommittee on Reorganization,
of the Committee on Government Operations,
Washington, D. C.

The subcommitte met, pursuant to adjournment, at 10:10 a. m., in room 357, Senate Office Building, Washington, D. C., Senator Stuart Symington, presiding.

Present: Senators John F. Kennedy, chairman, subcommittee, Democrat, Massachusetts; Stuart Symington, Democrat, Missouri; Norris Cotton, Republican, New Hampshire; Thomas E. Martin, Republican, Iowa.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator Symington. The subcommittee will come to order.

At the request of the chairman during his absence I will chair the meeting. We will resume hearings on S. 3199, to implement the Hoover Commission Recommendations on Budgeting and Accounting.

The first witness today will be the Honorable W. J. McNeil, Assistant Secretary, Department of Defense.

I welcome you, Mr. Secretary. You and I have been through quite a few wars together. I understand you are accompanied by Mr. Howard Bordner and Mr. Maurice Lanman, of the Department of Defense.

Mr. McNeil. We had two appearances this morning on almost the same legislation. Mr. Lanman is appearing before the Dawson committee and will come over here later.

STATEMENT OF HON. W. J. McNEIL, ASSISTANT SECRETARY, DEPARTMENT OF DEFENSE (COMPTROLLER); ACCOMPANIED BY HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING POLICY

Senator Symington. Do you have a prepared statement?

Mr. McNeil. I have a prepared statement dealing with provisions that affect the Department of Defense, section by section.

Senator Symington. Do you have a copy of it?

Mr. McNeil. Yes, sir. I think we have an extra copy.

Senator Symington. Would you like to read this statement or would you like to file it for the record?

Mr. Bordner. It has already been filed.

Senator SYMINGTON. It has been filed?

Mr. MCNEIL. Well, I think it has been filed, but not entered for the record. I think it was filed with the staff.

I think it might be helpful, Mr. Chairman, if we went through it section by section.

(See p. 211 for statement referred to by Mr. McNeil.)

Senator SYMINGTON. What did you say?

Mr. MCNEIL. I think it would be helpful if we went through it section by section.

Senator SYMINGTON. All right. Proceed.

Mr. MCNEIL. As you mentioned a moment ago, this bill covers many recommendations in the Hoover Commission Report on Budget and Accounting. It covers important methods and procedures in the field of governmental budgeting and accounting. Most of the proposed provisions are administrative matters which could be handled without legislation, although, I think we all agree, when enunciated in the law, may have an important effect on expediting desirable improvements.

In the comments I wish to make, I shall deal with those provisions which touch on the Department of Defense, and not deal with those provisions primarily affecting the Bureau of the Budget and the Comptroller General.

The comments that we submitted to the staff last week (see p. 211), have not been approved by the Bureau of the Budget. They do, however, form our recommendatitons and our thoughts on the Hoover Commission reports which were filed with the Bureau of the Budget at their request last fall. We had not, up to the last week, received any comments from them, so we filed our statement exactly as we had filed it with them.

I understand that since, they have felt that certain of our thoughts require perhaps more study before they cared to completely coordinate the views of the Bureau of the Budget and the Department of Defense.

Senator SYMINGTON. Let me get that straight.

Are there some things in your position that the Bureau says it did not approve, or have they modified your position?

Mr. MCNEIL. I do not know that they disagree or that they disapprove. They just said that they had not had time to evaluate certain of the thoughts that we wished to express.

Senator SYMINGTON. I see.

Mr. MCNEIL. It is not a flat disagreement.

Senator SYMINGTON. There is no disagreement that you know of?

Mr. MCNEIL. No; not a flat disagreement. There may be a difference of interpretation or a different wording or something of that kind.

Senator SYMINGTON. I see.

Mr. MCNEIL. First, I will take up section 1 (b) of the bill (S. 3199),* which would amend section 216 of the Budget and Accounting Act to require the use of cost-based budgets in each department and establishment and their subordinate units for purposes of administration and operation, including fund control. It would also require the use of cost-based budgets in all requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau of the Budget.

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*(See S. 3199, p. 3.)

Senator SYMINGTON. Now, when you say "cost-based budgets," Mr. Secretary, what do you mean by that?

Mr. MCNEIL. In the following 3 or 4 paragraphs, I will attempt to explain our view.

Senator SYMINGTON. You will define what you mean by a cost-based budget?

Mr. MCNEIL. Yes, sir; because there has been a considerable misunderstanding, I think, as to what cost-based budgets mean and how they would apply to our operations.

Senator SYMINGTON. My question was just due to ignorance of how you are using the term.

Mr. MCNEIL. I will attempt to bring it out, sir.

Senator SYMINGTON. Fine.

Mr. MCNEIL. We believe the use of cost-based budgets on the basis outlined hereinafter is desirable. Loose application of this concept as advocated by many without knowledge of Government requirements and without Government management experience, could, we believe, lead to many difficulties.

Senator SYMINGTON. Now, when you say that, just as long as I am following you, the cost-based budget idea is in the bill. As I get it, what you are saying there is that if it is used properly, it might be all right, but if it is used improperly it might be very dangerous; is that right?

Mr. MCNEIL. That is correct, sir.

Senator SYMINGTON. All right.

Mr. MCNEIL. Either cumbersome or dangerous, or just would not help to get our job done.

It should be clearly understood that the use of cost-based budgets should not result in eliminating the requirement for budgeting for expenditures and for obligational authority to be provided to an agency, by appropriation or otherwise, in order to incur obligations in advance of incurring costs. The Department of Defense acquires a great deal of materiel and undertakes construction under long-term contracts far in advance of expenditures or delivery of materiel. While it might not be necessary to point this out, there are some who in urging the use of cost-based budgets, have not fully recognized the requirement for operating within appropriation limitations based upon necessary financial authority for obligations to be incurred in advance of costs. Some have also seemed to indicate that there is a basic conflict between budgets based on cost and those based on requirements for obligational authority. Actually there should be no conflict. Obligational authority should be requested and provided in terms of cost, even though the cost impact will be in future fiscal periods. Likewise, fund control within an agency must be based upon granting obligational authority to subordinate units, that is, to field commands, and so forth, so that they can have authority to operate.

While we note no feature in the bill which would change the present concepts of providing obligational authority to departments and agencies through appropriations, nor which would revise existing laws with respect to the administrative control of obligations within appropriation authority provided by Congress, we believe the bill might have been worded to indicate more clearly that no such changes are intended. Moreover, we believe it would be helpful if this pro-

posed revision of section 216 were to contain an additional definition of what is meant by the cost basis of budgets.

For example, in the case of some programs, cost means "acquisition costs," as in the case of construction of public works, and procurement and production of materiel. In the case of operating and administrative-type programs it means to us, at least, cost of goods and services consumed. However, it should generally be understood that cost of depreciation of facilities procured under appropriations would not be included as an operating cost by activities utilizing such facilities, except as otherwise authorized by law, as in the case of revolving funds where the acquisition of capital assets is financed by such funds and depreciation is permitted to be charged as a cost of the goods or services sold by the activities operated under such funds.

Senator SYMINGTON. Now, let me interrupt you there, if I may, Mr. Chairman.

I have been interrupting as he goes along.

Senator KENNEDY (presiding). Yes.

Senator SYMINGTON. You say in the case of some programs, "cost" means acquisition cost, as in the construction of public works.

Now, you would have to commit beyond a year in the way of obligations before a contractor would build a building; is that not correct?

Mr. MCNEIL. Yes, sir.

Senator SYMINGTON. I am beginning to see now what you mean by the term "cost-based budget." A cost-based budget in the case of a building like the Pentagon Building, which took years to build, would be purely theoretical, would it not, because your contractor would not start unless the money had been appropriated?

Mr. MCNEIL. That is correct.

Senator SYMINGTON. Is that an analysis of it?

Mr. MCNEIL. In other words, we must have authority from the Congress, definitely committed, before a contractor would start to build a building, a ship, an aircraft, or anything else.

Senator SYMINGTON. And that being true, would this bill, in your opinion, result in the contractor's either being hesitant, reticent, or refusing to take the work?

Mr. MCNEIL. We think it is fuzzy, and could definitely give that impression——

Senator SYMINGTON. I see.

Mr. MCNEIL (continuing). Although in theory, the cost-based budget is all right if we clearly understand what is intended, what we are really trying to accomplish by it.

Senator SYMINGTON. I see.

Mr. MCNEIL. But we have to have a clear understanding. In the type of materiel you just mentioned, ships, aircraft, and construction, we cannot do away with the obligation side, that is, the authority granted us for long-term commitments to get those things done. We do have to measure costs; yes. The obligational authority is granted us on the bases of anticipated costs of acquisition, how much a 100 aircraft will cost, this ship, or this base, or these facilities.

But in the case of administrative-type functions—housekeeping, maintenance, and operation of bases, the maintenance and operation of equipment—we consider the application of costs to be the cost of consumption of the gasoline, spare parts, and labor necessary to keep the

thing moving for that particular year. But that is a cost of consumption and should not be dealt with in the same way as a cost of acquisition.

Senator SYMINGTON. While we are in this point right now, it came up before, Mr. Bordner—there was a time, I believe, when the purchase of long-term procurement items of one service was different from the other two. Is that now all equalized?

Mr. MCNEIL. Essentially. We have most of the heavy procurement in Air Force, Army, and Navy essentially on the same basis. Navy, who did have certain advantages in continuing types of appropriations, now is a little bit behind the other two in making certain advances in this area.

Senator SYMINGTON. I am only asking for information. I would not object to the other way. As I understood it in the past, once a keel was laid you did not have to come back for a further appropriation.

Mr. MCNEIL. That is right.

Senator SYMINGTON. If there was any increase in cost, you simply billed the Treasury for that increase?

Mr. MCNEIL. As to major items of equipment, whether it be tanks, fire control, radar, aircraft, or ships, the practice has been, since about 1952 or 1953, to finance, at the time the Congress acts, the completion of the article or number of articles in all three services. It has helped us very much in doing a better job.

Senator SYMINGTON. So what you have done since I left the Pentagon, is to have equalized all the way through all of the services; is that correct?

Mr. MCNEIL. Yes, sir.

Senator SYMINGTON. What would be fair for one would be fair for all; right?

Mr. MCNEIL. Right. As to that phase of financing, it is equal for all; and that is, anything that is bought today in all three services is financed in full by the Congress when we go ahead, even though, perhaps, the contract for parts of a vessel, parts of aircraft, or parts of the construction may not be placed under contract until the following year.

We still have the credit provided in full by Congress to complete the article.

Senator SYMINGTON. Now, just to make the record clear, I do believe that if there is an increase in the cost of all items, that that should be brought back for approval by the Congress; otherwise, in effect, there would be a delegation of the appropriation powers from the Congress. Is that your opinion?

Mr. MCNEIL. I think so.

Senator SYMINGTON. I am not getting in the case of revolving funds, now.

Mr. MCNEIL. No. I understand.

Senator SYMINGTON. Right.

Mr. MCNEIL. I think that is correct, sir. To say, increase fuel capacity of an airplane from 3,000 to 3,100 gallons, for example, I doubt if that is the kind of administrative problem that should be brought back to Congress for clearance.

Senator SYMINGTON. I agree.

Mr. McNeil. But, if you were changing the character, certainly, if you were changing a destroyer from an ordinary type to a guided-missile type which costs considerably more, I think that is a matter that has to come back and be discussed with our board of directors.

Senator Symington. Yes. And going to the other side of that, however, if you followed this term "cost-based" to what you might call a theoretical conclusion, even though you made certain specific reservations, for example, for ships or for bombers, you might find yourself without adequate spare parts, might you not?

Mr. McNeil. You could. But, as in most of these systems, you just have to work at it to make them work.

Senator Symington. All right. Thank you.

Mr. McNeil. Therefore, we would suggest the committee consider the following clarifying amendments to the proposed bill as suggested for consideration:

1. Change the last sentence under section 216 (a) to add the italicized clause:

Fund allocations within the departments and establishments shall be made on the basis of such cost budgets, *considering the lead time which must be allowed in incurring obligations in advance of incurring costs.*

Senator Kennedy. May I just ask one question about that? It seems to me that in considering the lead time which must be allowed in incurring obligations in advance of incurring costs, that would well limit the effectiveness of the amendment. I doubt if it would change very much existing procedures, would it, if you interpret that amendment to the full?

Mr. McNeil. There are many existing procedures, Mr. Chairman, that I think have to be kept in the system. Frequently, as I mentioned just before you came in, I think there has been a great deal of loose talk about cost budgets and accruals, and so forth. And, therefore, we have to have, I believe, an understanding of what the cost basis of budgeting is.

I think they have to be divided in two rather clean-cut categories: One category which is based on acquisition cost for materiel which takes a long time to produce; and the second category, such as the housekeeping or day-to-day operations of posts, camps, stations, and equipment, in which case costs should be the costs of consumption, of labor and material.

But you cannot, I think, just talk about costs alone, because we must have, as Senator Symington, I think, very clearly brought out a moment ago, some mechanism in which Congress provides the authority with which we make these long-term commitments for aircraft, ships, tanks, radar, and so forth. We must have that.

Senator Kennedy. Someone said the other day that if Congress gave the authorization, that that would be sufficient protection for a contractor in comparison to what we have now, because I made the point that the Defense Department can cancel a contract by paying liquidating costs.

Can you cancel out a 5-year contract at the end of the year, today, in the Defense Department?

Mr. McNeil. Yes; it can be done, Senator.

Senator Kennedy. You made the point that a contractor would not be any worse off than he is today when those contracts can be canceled.

than he would be under this arrangement if he were given the authorization and money for the first year. Then if the Congress wanted to, theoretically, it could cancel it. But so can the Defense Department today, once it pays the liquidating costs.

So I do not really see in these long-term contracts how a contractor would be any worse off, and Congress might be better off in controlling the funds.

Do you see what I mean?

Senator SYMINGTON. Yes.

Mr. MCNEIL. I believe I do, sir. First, of course, this bill only covers costs and does not cover the whole problem of how you would handle your advance authority, such as authorizing contracting authority for such things, nor how it would be provided.

That problem came up several years ago, because this cost-based budgeting has been a subject that has been discussed for a good many years.

That leads next to the problem of appropriating on an expenditure basis, that is, appropriating in a given year just with a department or agency would be expected to spend, to write checks for that year.

Now, some people would construe cost-based budgeting as fitting into our present structure. Others would construe it as meaning that you would appropriate only what you were going to spend this year. Do you see what I mean?

Senator KENNEDY. Yes.

Mr. MCNEIL. That is why I say there has been a lot of loose talk about cost budgets, without commencing to pin it down and define what is meant.

Now, if the Congress chose to appropriate on an expenditure basis—that is just what we would be expected to spend in a given year—we could make that system work. It would take time to install it. But if we did, we would have to go back and establish some kind of structure, very much as we have today, in order to authorize us to buy so many aircraft, so many ships, so many tanks, and to authorize us to keep so many people and to operate so many posts, camps, and stations at about a given price; then in, say, part 2 of the bill each year provide the cash we would spend in that year alone. But it means virtually a new structure.

Senator SYMINGTON. Just following the chairman's thought, I think the point is pretty well taken, is it not, that if you pay a cancellation charge on a cancellation today, you can pay a profit on that cancellation charge under the law?

Mr. MCNEIL. That is right.

Senator SYMINGTON. So the manufacturer might like to see the money appropriated, but whether the program is changed either by the executive branch of the Government or the Congress, he is in as good a position as he would be, either way. In other words, you might have a case where you did not want to build a particular plane or ship, in which case you would cancel out, on either basis. Then you might have the Congress utilize its rights under the Constitution to change its opinion as to whether you did or did not need a certain device, a situation which comes up all the time in some of the subcommittees of the Congress.

Mr. MCNEIL. Yes.

Senator SYMINGTON. Let us say, for example, if it were decided you do not need a base. Following the chairman's question, the contractor is just as well off under the way that the bill is now reported as he would be with this change. Is that correct?

Mr. MCNEIL. I do not believe so, sir, unless you added something to the bill which in effect said that all such long lead-time authority was going to be provided, or lead-time authorization was going to be provided in the form of, let us say, contract authority.

First, I should think Congress would want that themselves, because——

Senator SYMINGTON. Would want what?

Mr. MCNEIL. I beg your pardon?

Senator SYMINGTON. What would Congress want?

Mr. MCNEIL. To have a measure of the commitments or obligations we were creating for the Government. For example——

Senator SYMINGTON. They would know the total dollar amount that was involved in the production of a bomber or carrier. But it seems to me that they have a closer right of review—I have never really thought about it this way until Senator Kennedy asked the question—they would have a closer right of review if each time they had a chance to look year-by-year, in effect, the same opportunity that the Defense Department itself and the Bureau of the Budget in the executive branch have year-by-year; is that not true?

Mr. MCNEIL. Yes, sir. But if I may go back just one step, if we consider the cost basis of budgeting to be the appropriation each year of just what the agency was expected to spend, that will work, providing some other things are done. If we consider the cost basis of budgeting for materiel, that of financing or authorizing the full acquisition costs at one time, that means what we are doing today.

What I am trying to do is clear up the different definitions of the cost basis of budgeting.

Now, going to the question that Senator Kennedy brought up a moment ago, if Congress chose to finance activities of Departments—and I am speaking specifically of the Department of Defense—by appropriating each year just what we were expected to spend, or write checks for, we would have some mechanism in addition each year which authorized us to buy so many aircraft for so much money, so many ships, so many tanks, and so much materiel to be delivered in the future, also, authorize us to employ so many people to operate so many posts, camps, and stations up to a limit of, let us say, so many dollars for the ensuing year.

In effect, when I was asked by Senator Byrd to present such a plan in January 1953 (see p. 92), we had given some thought to it back in the late forties and early fifties because we thought sometime there might be an urge to go to an expenditure basis of budgeting; that is, to appropriate only the amounts to be spent in a year. And the system we thought we could work out that would be practicable, but which would take some time to install, would be that each year Congress would authorize us to operate at a certain level, and it would have to be measured in dollars when you got it at posts, camps, and stations, and maintenance.

It would authorize us in terms of dollars how many ships, aircraft, and radar we would buy.

Now, perhaps none of that new authorization would be spent that year, or very little of it in the first year. You would have to authorize us to do it in the form of——

Senator SYMINGTON (presiding). I think you are detailing me a little bit now on this.

Mr. MCNEIL. A bit. But it is rather important, I think, sir.

Senator SYMINGTON. Incidentally, may I interrupt you just a minute? Senator Cotton and Senator Martin, we are conducting these hearings with my old friend, Secretary McNeil, on a very informal basis. If there are any questions that you would like to ask at any time, as we discuss this, I hope you will feel free to do so.

Senator COTTON. Thank you, Senator. I might do that.

Senator SYMINGTON. Any time.

Mr. MCNEIL. I do not want to get into too much detail here—but in effect, Congress, in order to have control and also to give us assurance and contractors assurance that any program we embarked on, would carry with it through some mechanism, authority to procure, let us say, $12 billion or $14 billion worth of merchandise in future years; then as a second step each year, provide so much cash, which would be the measure of checks we would write in that year. That system could be made to work. It would take a year or two to install it, but it would work. But it would involve contract authority of some kind.

As to contract authority, that subject has been discussed almost every year by the House Appropriations Committee. At least since late 1949 or 1950. At one time they used to provide in their bills so much cash and so much contract authority. That is a messy kind of business to provide, say, just 10 percent cash and the balance contract authority. It is one thing that got us into difficulty in all departments.

So I think that any system you chose should be clean, all cash, or all contract authority, and then all cash to liquidate.

The House committee felt—and I would say hours were spent in discussing this—that the contract authority system was wasteful. That was their conclusion, and it is one reason they began in 1949 or 1950 to start appropriating all of the money to complete a certain group of aircraft, a certain number of ships, or a certain number of radar or tanks.

Senator SYMINGTON. Regardless of whether or not they needed the money in the year in question?

Mr. MCNEIL. That is right.

Senator SYMINGTON. How did they justify that opinion?

Mr. MCNEIL. First, they felt that the subcommittee itself would scrutinize the shopping list more thoroughly if it required more appropriations, instead of really considering as part of the then current budget only the downpayment in saying, "We will give you 10 percent cash down and the rest is contract authority, and we will make it up in future years." That was perhaps——

Senator SYMINGTON. Say that again. I did not quite follow you.

Mr. MCNEIL. Well, they felt that there was a tendency both for the Department to ask and the Congress to grant amounts under the contract authority principle which they would not consider as lightly if they provided cash. In other words, when they asked for cash, they really got serious about the business.

Senator SYMINGTON. Is that an argument for the cost-based budget?

Mr. MCNEIL. No. It is——

Senator SYMINGTON. In other words, let me put it to you this way; One of the biggest criticisms in recent years has been the length of lead time. And as you know, there has been a tremendous emphasis not only in the Congress and the departments, but in the press itself on the amount of appropriations, which I am sure we both agree is not nearly as important as expenditures incident to obligations; right?

Mr. MCNEIL. Yes.

Senator SYMINGTON. Now, there was a statement that the lead times were much too long. I remember some of them ran as long as 36 months on planes.

Mr. MCNEIL. That is right.

Senator SYMINGTON. And I believe that one of the positions taken by the Department when I first came to the Senate was that those lead times could be materially shortened without affecting the delivery of planes.

Mr. MCNEIL. As a matter of fact, they have been shortened considerably, and I think manufacturers with a little less backlog perhaps are doing a little better job producing.

Senator SYMINGTON. Actually, a lead-time plane has nothing whatever to do with shipments and expenditures unless the lead time is cut too much; right?

Mr. MCNEIL. That is correct, sir. If it is cut too much, then it could delay it.

Senator SYMINGTON. Now, however, it seems to me that that justification for lead time was based on the fact that if you had those long lead times, you might get relatively casual with respect to your programing and your production at the expense of the taxpayers.

Mr. MCNEIL. Yes.

Senator SYMINGTON. And I am just thinking that maybe the same thing would be true here, that this bill, this cost-based budget concept, would also give you a closer check on money from the standpoint of the contractor himself, that he would know what he was doing was going to be periodically reviewed, not only by the administration and executive branch, but also by the Congress. Do you see what I am trying to say?

Mr. MCNEIL. Yes, I do.

Senator SYMINGTON. It is a closer control, you might say; it is a closer control through management-cost control.

Mr. MCNEIL. Well, first, I did not intend to convey the impression that I was against a cost-based budget. I wanted to understand and I thought it would be helpful if we all understood what a cost-based budget was, and next I thought that if we were to adopt a cost basis, and understood what it was, then we had to go one step further than this bill calls for, and outline the machinery, the mechanism or the system by which would be granted the authority to make commitments for the long-term lead-time items, because before our Department could place orders for aircraft, ships or any other equipment, they will have to have the authority from Congress in one form or another, either in contract authority or in cash.

I would urge that whichever is done, whether it is contract authority or cash, that it be clean, one system: all contract or all cash, and not just half and half.

Senator SYMINGTON. And that is a cost-based budget?

Mr. MCNEIL. Yes, in the case of long lead-time materiel it would be. It budgets based on acquisition cost.

Senator SYMINGTON. Yes.

Mr. MCNEIL. So you either provide all the money to buy a certain number of aircraft, complete, in a year, or you provide contract authority for these same 200 aircraft, let us say, but not have it part cash and part contract. I would urge that we never get into that again.

Senator SYMINGTON. On the other hand, if you are going to establish a price, you have got to have an obligational authority.

Mr. MCNEIL. That is right.

Senator SYMINGTON. You establish a price based on a quantity of 200, if you are going to make 50 a year, and not a price based on 50. Otherwise you would not get anything like the price that you would with a contract for 200. On the other hand, if your budget, per se, was on the basis of cost, you would request of the Congress contractual authority for 200 planes, but an expenditures budget that would cover only 50 planes, because you would only want that amount of money in the year in question in order to pay up the bills.

Mr. MCNEIL. That is correct.

Senator SYMINGTON. Or, in other words, pay for your shipments. Now, you say that that system would not work?

Mr. MCNEIL. That system will work. That system will work if we adopt it complete across the board, taking the thousands of items that we buy and applying that principle to all of them, but providing contract authority for the whole 200 aircraft as well as other such materiel and then cash for whatever would be needed for expenditure that year, but if it were to be done the whole system should be put on that basis.

And that is the principle, really, that we outlined in the plan that I mentioned a minute ago. We submitted this to Senator Byrd in 1953 when he was interested in what could be done if Congress considered appropriating on an expenditure basis. It would take a little time for the departments to gear themselves to it.

I think there would be advantages to that system if the change were complete. But speaking only of a cost basis of budgeting, as is the case in this bill, I think you have to go much further if you want to apply or install such a different principle in a new system. That is all I am urging.

Senator SYMINGTON. I am asking these questions purely for information. Assuming that you went to a cost-basis budgeting, with obligational authority, but the actual appropriation only in theory enough to carry your expenditures from the standpoint of your received shipments, I can see what would happen under this bill if you got more money than you needed, because engineering changes, for example, held up a ship or a plane; you would, as I understand it, give it back to the Treasury. But suppose that due to reasons incident to world conditions or better production, you needed more money; would you handle that in a supplemental?

Mr. MCNEIL. We would have to.

Senator SYMINGTON. You would have to handle that in a supplemental. It would have to be to a certain extent, an emergency situation; would it not?

Mr. MCNEIL. In the same way if you speeded up some other item that was under contract, you would still have to do it.

Senator SYMINGTON. For example, if you needed more spare parts as an addendum to an original order, because of failures of any type of part, then you would have to handle that in a supplemental; right?

Mr. MCNEIL. That is right, sir.

In the past I think the Government has devoted too much attention to the obligation side of the picture and not enough to the cost. There is no question of that. But at the present time, there is a great tendency on the part of some to think only of costs and never of the obligation side. I think that to fail to emphasize either would be dangerous both for the Congress and for the department.

I certainly want to see business management in Government. However, many things that a business has to do because of taxation and what not are not applicable to the Government. Therefore, I think if we can put good business principle into Government work, but not necessarily try to make Government machinery exactly like business, we will make more progress.

Senator SYMINGTON. I agree with you entirely.

Mr. MCNEIL. Frequently we have tried to tap all the available talent in business management, accountants and everything else, in order to help solve our problem. In fact, when you were Secretary, you know we were busy then, and we still are, trying to get ideas that will get us a better business management in Government.

But frequently, people who have worked solely on business accounting deal with costs, to the virtual exclusion of obligations, and in many cases they have, for this reason I think, a weakness or a blind spot when it comes to the Government operation, where the Congress must know what our future obligations are, what we have committed the Government to do. And frequently that is overlooked in applying the so-called accrual and cost basis of budgeting. I think there is a tendency to downgrade the obligation phase too much.

Senator SYMINGTON. I think you used the term not too long ago of the board of directors with respect to Congress. I agree with that. My chief criticism of Government accounting as against business accounting would be that in Government everybody is very careful to record where the money goes or tries to be, so that there can be no question about any nonsense, and they try to record every penny. But on the other hand, I do not think they interpert the recordings as one does in private business in order to get better management.

Mr. MCNEIL. That is correct, sir. I think you have put your finger on one of the real weaknesses.

Senator SYMINGTON. And that being true—and I am not saying I am for or against this—I want to emphasize this point, nor have I been briefed in it except by a member of my own staff in the last hour before we started—but wouldn't this cost-based budget, which I believe Senator Byrd was quite interested in—you mentioned him a couple of times——

Mr. MCNEIL. But as I say, I want to add rather quickly there——

Senator SYMINGTON (interposing). Wouldn't that give you a little better—let us use a trite but still good term—wouldn't that give you a better cost control?

Mr. MCNEIL. It could, sir, if we had the whole system, but not just one piece of it. That was really my point.

Senator SYMINGTON. Now, when you say that—I will take that as a premise—what would you need beyond this bill in order to have a whole system, as you put it?

Mr. MCNEIL. Adopt the system whereby the Congress each year would authorize our entire program, some of which would be just for the following year and some of which would extend into future years; and then as a second action, or companion action, provide the cash which we would spend the following year.

Senator SYMINGTON. Right. I understand that. But how does that differ from what we do now?

Mr. MCNEIL. Well, it is different in the sense that, while we present the program and it is authorized in terms of appropirations to maintain a strength of so many men, operate so many stations and buy so much materiel, the difference is that the cash is all appropriated at the moment.

Senator SYMINGTON. I understand that. Now, this bill would say that the cash was only appropriated for the year in question?

Mr. MCNEIL. Right.

Senator SYMINGTON. Except for that modification, where would there be any difference that you would have to worry about? You say, "If you go the whole way." All right. Let us not discuss whether you should. But let us take the premise that you do. What would be the difference between your approach to the Appropriation Committees and the authorization committees of the Congress now under this bill and the way we have done it in the past? That is what is not clear to me.

Mr. MCNEIL. The difference in approach would not be great. It would be almost the same. Their method of treatment would be different.

Senator SYMINGTON. If there would be any difference of any kind, what would that be?

Mr. MCNEIL. I beg your pardon, sir?

Senator SYMINGTON. If there would be any difference of any kind, what would that be?

Mr. MCNEIL. There would be a difference of treatment once the presentation is made; no difference in the general presentation, except perhaps more emphasis on what you are actually going to spend next year. There would be more emphasis on that.

Senator SYMINGTON. In other words, you would be forced to tell the committees more about your actual costs than you do now as against your actual obligational authority?

Mr. MCNEIL. No, not actual cost; actual expenditures in the next year.

Senator SYMINGTON. Actual estimated expenditures?

Mr. MCNEIL. Yes.

Senator SYMINGTON. Well, in effect that would be actual costs; would it not?

Mr. McNeil. Yes, except that when we embark on something in the future, I think it is well for the Congress and ourselves to consider the total cost over the long term.

Senator Symington. Oh, yes. But you would present the total cost in your request for obligational authority?

Mr. McNeil. Yes, sir.

Senator Symington. And then you would segregate out of that your estimate of what you would need to cover your expenditures for the first year of the overall program?

Mr. McNeil. Of course, this bill does not call for what you have just mentioned or what we are discussing. If this bill did, and then provided a reasonable time to put it in motion, I think it might be a real step ahead.

Senator Symington. I think we are making a lot of progress.

Where does the bill not carry out the idea that we have just, perhaps it would be fair to say, agreed on as better cost control?

Mr. McNeil. It just talks about the cost basis of budgeting:

> For purposes of administration and operation, cost-based budgets shall be used by all departments and establishments and their subordinate units. Fund allocations within the departments and establishments shall be made on the basis of such cost budgets.

And, of course, supplementals are to be submitted on a cost basis. But that is not a plan of operation such as we have been discussing here in the last 5 minutes. The plan we have been discussing——

Senator Symington. Then what you say, as I understand it, is that if this bill was a cost-based budget, as they call it, which is a budget based on expenditures, how does that alter the fact that at the same time you asked for the money, you presented your cost of your overall program and the estimate of the total cost, whatever the program would be? Then you would be satisfied with it; is that right?

Mr. McNeil. Yes, but, personally, I think it could be made to work; but we would have to go a little further than that. That is generally, however, along the lines that I think would be workable. Time enough would have to be given for both the Congress and the department to adjust itself to that type of operation. That was in essence the outline plan that we submitted about 3 years ago——

Senator Symington. Now, let us go back to the bottom of your page 3. Your first amendment in effect applies to what you are just saying, does it not?

Mr. McNeil. Yes, sir.

Senator Symington. All right. Would you proceed with that, then?

Mr. McNeil. Yes, sir.

Senator Symington. Senator Cotton, have you any questions you would like to ask at this point?

Senator Cotton. Just one, if I may.

You had a representative present when we were talking the other day and talking yesterday, I think, about the proposed amendments that were going to be drafted and submitted by the Bureau of the Budget and the Comptroller General's Office?

Mr. McNeil. That had reference to the other bill that was being considered here?

Senator Cotton. Yes.

Mr. McNeil. Yes, sir.

Senator COTTON. Now, that was along the same line of what you are talking about changing this bill, was it not, and making it more far reaching?

Mr. MCNEIL. No, sir. That was Senate bill 3362 (see p. 2), I believe, and that dealt with two problems: (1) the settlement of claims; and the other was the consolidation of accounts once the period of obligation had expired.

I understand there is a committee print here with a proposed amendment.

Senator COTTON. I was only trying to draw an analysis. But are you suggesting that this bill could be strengthened by an amendment so that it would be affirmative in going the whole way in putting in a cost system?

Mr. MCNEIL. Yes, it could. I think it would take quite a lot of work, sir, but it could be done.

Senator COTTON. Would you favor that?

Mr. MCNEIL. Yes, I would favor it personally, because I think there are advantages. But it would take, my estimate would be, at least a couple of years of intensive work before the departments and the Congress could reverse themselves and put in the system.

Senator COTTON. In other words, it could not be done overnight?

Mr. MCNEIL. No, sir.

Senator SYMINGTON. Now, what system are we talking about there, Mr. Secretary?

Mr. MCNEIL. I am talking about the system on which we were exchanging views about 5 minutes ago, where Congress would authorize the whole program on the one hand and provide separately——

Senator SYMINGTON. But they do that now.

Mr. MCNEIL. They do.

Senator SYMINGTON. They do it now. So there is no change there.

Mr. MCNEIL. No substantive change.

Senator SYMINGTON. And then the next point?

Mr. MCNEIL. Then the next point is providing concurrently, or as a companion action, the cash you would spend in the following year.

Senator SYMINGTON. All right. Now, what happens now is that Congress authorizes all the money for, say, the 5-year program or whatever is necessary in order to get all the merchandise involved on the basis of estimated lead times, and the change would be that they would authorize that but only put the money up for the expenditures required in the year in question?

Mr. MCNEIL. Yes.

Senator SYMINGTON. That appears to be a relatively simple procedural correction.

Mr. MCNEIL. No. It is quite involved, sir, because the Government departments have not as a practice, and particularly the Department of Defense has not as a practice, refined their estimates of what is going to be spent in the following year by all the 3,000 different programs to a point where you can make a good guess.

Senator SYMINGTON. If you are talking about major items, now, we will take a *Forrestal* carrier program, or we will take the B–52 bomber delivery program. Certainly in the authorization for that, you say in the next 5 years we want so much money because we are going to get so many carriers, which would be one, or so many bombers, which would be a certain amount, and so forth. There would be no

problem about that. "This is what we estimate we are going to need, and this is what the authorization is that we would like to have."

Mr. McNeil. No. That part is simple.

Senator Symington. All right.

Mr. McNeil. That part is simple.

Senator Symington. Then where do we get into complications?

Mr. McNeil. And we are doing it today.

The big problem is arriving at, in all the various procurement programs as well as operating programs——

Senator Symington. No. We are not talking about operating programs now. We are talking about the purchasing of carriers, planes, or bombers. We are talking about procurement programs.

Mr. McNeil. All right. I will stick to the procurement program——

Senator Symington. Yes.

Mr. McNeil. Although I think this should apply to the whole business if we are going to do it.

Senator Symington. Let us stick to this one first.

Mr. McNeil. All right. The analysis of actual cash requirements in all the scores and hundreds of contracts is not a science in the Department of Defense at the moment. How much will actually be spent on a contract, how much actual cash will go to Boeing, Convair, Grumman, or anybody else, next year is not known precisely. You can guess it approximately. But attention has never been placed in any executive department that I know of, and certainly the Department of Defense, on that phase, as being one of the key points of procurement. We would have to make a rather accurate estimate, because if we overestimate Grumman or Boeing a little bit, we could easily come to you with an estimate of 10 percent above what would actually be required.

Senator Symington. And you put the attention of the people involved deeper into cost analysis, and therefore control through the management of the cost.

Mr. McNeal. All of which, I think, could take a couple of years to get the thing working.

Senator Symington. Senator Cotton, I did not mean to interrupt you.

Senator Cotton. That is all right. You said that Senator Symington lived with these things, and so he will drop us some of his comments as we go along.

Mr. McNeil. Excuse me.

Senator Cotton. I just want to straighten out 2 or 3 things in my own mind. First, sticking to procurement only, sticking to this matter of when yon contract ahead for a carrier or for a large number of substantial number of planes, and the contract is going to take 5 or 6 or 7 years to carry through, are those contracts firm contracts with a fixed amount, or do you have escalator clauses or some other means of taking care of a possible change in the cost of material and materiel, and so forth?

Mr. McNeil. There are all types of contracts, sir. On the more involved material and newer equipment, there is escalation; there are target price contracts; there are price redetermination contracts, and always provision for design and engineering changes.

Senator COTTON. Then if you go on a system of authorization, the merit of that system, as you have referred to it, is that the Appropriations Committee of Congress knows what it is being obligated to in the future. It is almost impossible for you or anybody else to inform a committee of Congress what an important contract like the construction of a carrier or a large contract that extends over several years is going to cost. You cannot foresee what it is going to cost; can you?

Mr. MCNEIL. Well, I think we are doing a pretty good job of that, sir, as to the overall cost, but it is more difficult to forecast, by contract, just how much will be spent in each 12-month period in the case of a long-term contract.

Senator COTTON. I am not questioning but that you are doing a good job.

Mr. MCNEIL. No; we have gotten it down to a point that, while once in a while we have a cost change or cost changes that in the aggregate mean that something costs a little more. I would say our estimates of what this material costs are remarkably good in all services at this moment.

Senator SYMINGTON. Would you yield just a moment? If you can do a good job in 5 years, you can certainly do a better job in a year, because you are going to have changes in cost, changes in material costs, and changes in labor costs. So if you can do a good job for 5 years, why can't you do a good job for 1 year? Or let me put it to you this way. Now this is a little broader question.

Nobody wants to see a balanced budget more than we three up here, I am sure of that, but you have a $60 billion budget overall for all the Government, and you are going to balance it, Secretary Humphrey said, by $200 million. That would be, just figuring here, about one-third of 1 percent of the budget, as the difference between a balanced budget and an unbalanced budget.

Now, if there is any problem about what you are actually going to spend in a year for activities thta take around 64 or 65 percent of the total tax dollar, I do not see how you can estimate that you can balance the budget unless you know what you are going to spend pretty closely, especially as you estimate by such a fine line as one-third of 1 percent of the total.

Mr. MCNEIL. That is a very good question, and I can tell you how it is done.

First, if you will make an adding machine list of the best estimates made by a great many very able people in charge of the hundreds of individual programs, the total will run far greater than the amount that will be required to cover the checks written during the year.

For example, if we should take any one of the proponents of a missile, he knows it is going to work. He knows the thing is going to come along beautifully, and when he lays out this estimated expenditures, he knows that that is about it.

If you take a new engine or a new aircraft or a new tank or a new radar, the proponent of that program knows he is going to get it quick and, that the initial schedule is going to be met. So his estimate of expenditures on his program, frankly, will be high. There is nothing wrong with that. He would be trying to do the best job he knows how. True, he has not been required in the past to be precise in refining his estimates. But the sum total, the adding machine list of all program estimates will be greater than the amount of checks written

next year, because whether it be strikes or whether it be design difficulties, or what not, things do not always move just as each individual program proponent thinks they will.

So, as we justify these programs to committees and try to estimate the amount that will be spent on each major program or contract, the sum total of that will be considerably greater than the actually required overall. It is just bound to be. Expenditure estimates are, therefore, not the sum total of individual program estimates but rather such estimates in the aggregate, modified by experience, possibility of slippage, knowledge of overall levels at employment, and so forth.

Senator COTTON. Mr. McNeil, I want to make it very plain to you, that my question is not critical.

Mr. MCNEIL. I understand.

Senator COTTON. I served on the Appropriations Committee in the House for quite a long time, and I even served briefly on one of the military subcommittees, and I have really been amazed, and marveled, that the Defense Department could do as accurate a job as it does in laying out the program of what is going to be required.

But it still seems to me—and the purport of my question was this—that if the advantage of the authorization system is that Congress is supposed to know in advance the whole program, it would seem to me that, changing as rapidly as you are, with the cost of material changing rapidly at times, your own specifications, sometimes change, do they not, on long-range contracts——

Mr. MCNEIL. They do.

Senator COTTON. You do not have that complete knowledge and, on the other hand, you have less control.

What I would like to ask you is this and then I will yield to Senator Symington.

Senator SYMINGTON. No, I am interested in this.

Senator COTTON. Would you be willing, because some of us on this subcommittee have not been through the mill as Senator Symington has, would you be willing, or would it be too much trouble to have somebody on your staff prepare for this committee so that some of us can study it, one or two examples of budget tables for appropriations for procurement, like planes or carriers, or something else, and one or two examples of the requirements of supplies—do I use the correct term?

Mr. MCNEIL. Yes; I understand.

Senator COTTON. And show us in those special items or appropriation titles how the two methods would work and what would be the effect of this bill, and the budget information and tables.

Mr. MCNEIL. I think I can do that, Senator. We would have to understand that working out a single example is rather simple. It is when we put the literally thousands of items together that we get into our problem.

I would like to complete an answer to Senator Symington.

I do not mean to say that we could not do it, but, in a reasonable period of time, I think we could get to a point on the expenditure side where we could be almost as proficient as we are on the other side at the moment.

We have been working on this phase of the problem during the last 3 or 4 years to get where we are now. We do not consider our ex-

penditure estimating by program as satisfactory as our estimating on total program costs.

So all I meant was that it would take time to put such a system in and make it work.

Senator SYMINGTON. I do not want to pass any compliments out here, but I do not think there is anybody in the Pentagon more knowledgeable of figures and problems of figures than you are, and I have a great respect for your opinion. On the other hand, you see these periodic disclosures of waste. For example, I was pretty shocked to read the testimony that has just been published in the House Military Appropriations Subcommittee. It does not have to do with this Administration or that Administration. It has to do with both Administrations.

Mr. MCNEIL. Yes, that is right.

Senator SYMINGTON. I noticed that Secretary Wilson said he was "mad and sad." I think those were two of the words he used after reading that record.

Mr. MCNEIL. Those were exact quotes.

Senator SYMINGTON. Is that right?

Mr. MCNEIL. Those were exact quotes.

Senator SYMINGTON. It was on page 161, I believe.

I know that there was a case where a plane was believed faulty and, for many, many months after it was purchased, or 6 months afterward, at times, killing test pilots due to engine failure. That story broke as the result of a great newspaper's investigation, for which it got an award.

Now, I know and you know, and I know that you know that I know, that there was no skulduggery in that situation. The chances would be less than 1 percent. It is just the fact that we have really loose management control through cost control which, as I understand Senator Byrd's approach to the problem, is the thing that he is so anxious to get.

There are always a lot of methods by which you can make a budget balance, or an estimate balance, for example—you can stop buying or you can defer shipments—you can do a lot of things to justify a position—of course, against that you have to balance how much you need. In business you could not do that if the stores were crying for merchandise. But, at the same time, in Government you have a better chance of doing it, especially in the Department of Defense, unless you are in a war.

Now, all I say is, would it not be better—and I am just thinking this thing out with you here—to force the Department to a closer analysis—and that is what we are really talking about, Mr. Secretary, as I see it. Would it not be better to force them to a closer analysis of actual expenditures in the year in question, so that what you would really get, as I see it, would be better control on the part of each service of the money that is granted to them by the Department of Defense?

Mr. MCNEIL. I think anything that we can do which will encourage that will be helpful.

On the item that you just mentioned, however, I do not believe that appropriating on an expenditure basis would have prevented the matter. I have examined that rather carefully. I examined the

House Committee report, as did Secretary Wilson, and we said, "Let's take that report and see how much we can get out of it to improve our operations."

Senator SYMINGTON. I thought his testimony was very constructive on that.

Mr. MCNEIL. In other words, he did not oppose it or attempt to whitewash a thing. We all really wanted to find out if there was anything in the report which would help correct the machinery to avoid recurrence in the thousands of transactions we have.

I do not believe that any change we are talking about here would have affected that case. In fact, one of the real problems is how do you get people, when they find something is drifting into trouble, and this is true in business as well, to cut off something, once you know it is not going to work, or once you think you are in trouble. That item plus another one that was canceled last year—it was not the same type of situation, but the item was not going to be a productive or really effective type of equipment because of delay in development—was an instance where I think we waited a little too long to drop it off. But how do you get that done promptly when the people need a more advanced article desperately, and sincerely hope and believe it will work out. Hope is a great thing in this world, and they hope that some development will come along to make it work.

Senator SYMINGTON. Let me ask you this. In business, almost every company has what is, in effect, termed a monthly balance sheet, earnings, statement, and balance sheet, showing assets and liabilities, current and fixed, and earnings against costs, and so forth.

And that is broken down now to where you generally submit it every month, as you do the whole business to your stockholders every year.

In business, I found out that if you had a statement that was a weekly statement, that was much better than a monthly statement, giving various things incident to your fiscal position and quite a lot incident to your operating setup.

Then we got it down to a day. Every day we had certain figures distributed around on mimeographed sheets, so that every day we had a check.

Mr. MCNEIL. Particularly on the trouble spots.

Senator SYMINGTON. I beg your pardon?

Mr. MCNEIL. Particularly on the trouble spots.

Senator SYMINGTON. That is right. For example, in a foundry, you can allocate per sand casting, if you are still in sand castings, per day. What I think now is that if you tighten this thing up, and that is what we are talking about, this would be tighter cost control. You can get your authorization—I am in complete agreement on that, that you ought to present your whole program to the proper committees—but then you say, "This is the money that we want this year, because this is the estimate of what we will spend."

If you do not spend it, it goes back to the Treasury, and if you need more than that, then you come in for a supplemental, which, as a matter of interest, we do pretty nearly every year. Has there ever been a year in the Defense Department when you did not come in for one supplemental?

Mr. MCNEIL. It is usually one or more, sir.

Senator SYMINGTON. All right.

Mr. McNeil. I might say, Senator, that not necessarily with this objective in mind, but realizing the importance of trying to get a good idea of what you are going to spend, we have been devoting considerable effort to evaluating operations on that basis, in recent years, although it has not been a mandatory part of the budgeting process.

I might say this, that 3 or 4 years ago, or even 10 years ago, the initial estimate of what would actually be spent in a given year out of the available authority would run from 25 to 40 to 50 percent in the aggregate above the amounts that actually were spent. In the last 2 years, we are getting to a point where the program managers are getting their estimates down within 10 to 15 percent above what would be a good gross estimate. We have been devoting a great deal of effort to that side of the business, even under the present budget structure.

We felt that once the House Committee cleaned up, what I thought was a very bad practice, as I mentioned a moment ago, of providing, let us say, 10 percent down and the balance contract authority, which was the old method of providing contract authority, and started to fund or appropriate for the full amount of the programs as presented and approved, a great step forward was taken to clean up the thing. Then the Congress helped us a great deal by providing a continuing type of appropriations for most of our long-term procurements. That was a real help, and frankly it has saved the Government a great deal of money because—and I think you would know this perhaps better than almost any of us—if you have something such as the aircraft you mentioned a minute ago, and the people involved can cancel and use the funds for something that is good, it is much easier to get that decision made to cancel, to close out or to slow down the ineffective, unsatisfactory purchase.

If, however, it is "dead money," you will find, I think, human nature being what it is, that the proponent will hang on as long as he can.

Senator Symington. That is so.

Mr. McNeil. A good example may be found in the case of the Marine Corps. When the Marine Corps was provided continuing type apporpriations there was, in the following year, substantial adjustments in their procurement programs.

Senator Symington. Now, when you say "continuing money," do you mean revolving funds irrespective of obligation?

Mr. McNeil. No, sir.

Senator Symington. What do you mean by continuing money? Define that.

Mr. McNeil. No year funds. When appropriated, it is available for obligation until it is completely used. It does not lapse on June 30.

Senator Symington. I think we are all opposed to that, unless it is required under long-term procurement programs.

Mr. McNeil. We have only applied it to long-term procurement. But the Marine Corps had never had it even for such procurement. They had always had annual appropriations. Their program under previous annual appropriations was considered reasonably sound.

However, in the year in which they were granted no-year authority for their major procurement, they immediately went back over their list of outstanding material and dropped out about $300 million worth of materiel because they felt, "If we can use that authority for more modern gear, there is no point in accepting something that is substandard," and so forth.

I would say we definitely saved by that change in method of financing $300 million for the Government. Otherwise we would have taken the other material and immediately had a requirement to replace it with the more modern equipment.

Senator SYMINGTON. Yes.

Mr. MCNEIL. I think the Air Force has done the same thing.

Senator SYMINGTON. Now, Mr. Secretary, you got down to the bottom of page 3. I have one more question, and unless some of the other Senators have a question, I would like you to proceed with your statement.

The question I would like to ask you is if you put in:

> Considering the lead time which must be allowed in incurring obligations in advance of incurring costs.

That in itself would simply be a recognition of the problem and would not change the basic idea; would it?

Mr. MCNEIL. No; it is a recognition of the problem, and implies that you have to provide in some form the authority to make these long-term commitments.

Senator SYMINGTON. Right. In other words, it is a request for obligational authority, but not a request for a change from the basic concept of cost-based budgets?

Mr. MCNEIL. No.

Senator SYMINGTON. Right?

Mr. MCNEIL. But again, I want to make it clear that cost-based budget, I think, must mean two things: One is acquisition cost on equipment, major equipment; and the cost of consumption in normal housekeeping and day-to-day operations.

Senator SYMINGTON. Right. But you would not want to extend the money that you asked for beyond what you would spend in the year in question; right?

Mr. MCNEIL. Not if Congress provided for a completely new system; no.

Senator SYMINGTON. And what you are really saying in this underlined part of your talk is to ask that full consideration be given to long-term items, regardless of whether you do or do not have the expenditure situation in the bill as of now; right?

Mr. MCNEIL. That is right, sir.

Senator SYMINGTON. Senator Cotton, do you have any further questions at this point?

Senator COTTON. No.

Senator SYMINGTON. Senator Martin?

Senator MARTIN. No questions.

Mr. MCNEIL. But to make this clear, sir, I think that if this bill did contemplate such a change, it would be helpful to outline the whole problem and to state the basis of appropriations and costs of long lead-time obligations.

Senator SYMINGTON. Do you have any language that you would like to see included in the bill?

Mr. MCNEIL. We have some, but it does not give the complete package that I would urge be considered.

Senator SYMINGTON. Will you proceed?

Mr. MCNEIL. Right, sir.

Next, insert in section 216 (c) the wording underscored above after the words "shall be prepared on a cost basis."

Insert in section 216 (d) the underscored words: "The budget required by section 201 of this act to be transmitted to the Congress shall contain information on program costs and accomplishment as well as obligations and expenditures * * *"

You must keep those two things in the picture.

Senator SYMINGTON. May I ask just purely for information, what is the definition of "accomplishment"? Does that mean what you have actually done to date on the overall program?

Mr. MCNEIL. What we have done on the program to date, yes, where it stands. [Continuing:]

4. Add to section 216 (e) to define the cost basis of budgets, as follows:

(e) The cost basis of budgets, as provided in this section, shall mean:

(1) cost of acquisition in the case of programs for construction of public works or procurement and production of materiel.

(2) cost of goods and services consumed in the base of operating- and administrative-type programs.

(3) depreciation of capital assets employed shall be excluded as a cost except in cases specifically authorized by law.

While the proposed bill does not provide for changing the basis of appropriations from obligational authority to accrued expenditures or costs, as recommended by the Hoover Commission, we would like to mention that the Department of Defense is not opposed to that idea and believes it has merit, provided the concept of obligational authority is retained, as for example by the provision of separate contract authority by the Congress, in the manner recommended by the Hoover Commission.

We mentioned a moment ago that we had outlined our thoughts on that.

Senator SYMINGTON. Excuse me, Mr. Secretary. Let me just be sure I understand here. What you are adding, as I understand it, under No. 4, is that you want a more precise definition; is that right?

Mr. MCNEIL. Yes, sir; that is one of the points.

Senator SYMINGTON. You do not change the idea that you only ask for the money you need for the year in question, but you want a precise definition with respect to complete clarification before the Congress of the total cost over the long pull of the entire program?

Mr. MCNEIL. The current cost, as well as the obligational authority that you need to carry on.

Senator SYMINGTON. Right.

Now, one other question here on page 5, because it does not do us any good to read this without understanding it. You say, "We would like to mention that the Department of Defense is not opposed to that idea and believes it has merit," the idea being to change the basis of appropriation from obligational authority to accrued expenditures.

I think we understand that, that is just shortening it up to the year in question.

Mr. MCNEIL. As a matter of fact, we are trying to take the present system and approach that ideal at the present time.

Senator SYMINGTON. Right. But you say, "provided the concept of obligational authority is retained." Of course, that would have to

be retained. Otherwise, you would have a complete balk from some of your suppliers; do you not agree?

Mr. McNeil. That is right. But if you read the writings and reports of many people who have written on this subject, they drop this out, ignore it, or play it down, and I think it is a vital part of this whole package.

Senator Symington. Yes. Thank you.

Mr. McNeil. Now, there is another section of the bill that would require the Bureau of the Budget to assign personnel to serve in each principal department and agency.

We would question whether the Budget and Accounting Act should be amended, as proposed, to prescribe the designation and assignment of Bureau of the Budget personnel to serve in the principal departments and agencies.

Informally, we have, I think, a very excellent working relationship with the Bureau of the Budget; in fact, we are doing what this proposes. We have tried to operate for a number of years on the basis that the "safe is open" and the Bureau is welcome to information they need day in and day out, 365 days of the year.

In fact, there are more than two now regularly assigned in and out of Army, Navy and Air and our place, because we want our programs to be in such shape that we do not care who scrutinizes them. We think that is proper, so we have worked out an arrangement which is time saving, as well. As you recall, years ago we used to submit the budget on September 15 to the Bureau of the Budget, followed by a series of hearings there from September to December. In fact, other agencies are still doing it.

We have shortened the time required because now, by more or less living with us on an informal basis, they know what is in our proposals. Therefore, we eliminate 2 or 3 months of time previously required to process a budget and, in that way, we can get the Joint Chiefs' plan 2 or 3 months later. The people who are working on the procurement plans have 2 or 3 months' more time to develop their plans and make decisions closer to the year in which we are to operate.

Senator Symington. Now, you are talking about section I (c) here?

Mr. McNeil. Yes, sir, but I do question whether such a thing should be written into law. It is an administrative matter and——

Senator Symington. Actually, if I am not mistaken, the Bureau of the Budget is in the Executive Office of the President, is it not?

Mr. McNeil. Yes, sir.

Senator Symington. So, if he wanted to do it that way he would do it if he thought it would be better.

Mr. NcNeil. Certainly.

Senator Symington. And what you really would be doing if you passed this part of the law, would be creating by statute something which is fundamentally an operating and administrative problem?

Mr. McNeil. That is correct, sir.

Senator Symington. Because the Bureau of the Budget is either satisfied or dissatisfied with the nature of their relationship with the Pentagon and the Department of Defense, and that is their problem as the direct representative of the President, is it not?

Mr. McNeil. Exactly, sir.

Senator SYMINGTON. Yes. Now, that comes to another point that we discussed. I think Mr. Bordner and I discussed it the other day. This one I wish you would give consideration to and I would just as soon not have you answer it right away. Just give it some thought.

One thing that has always worried me is that when we get the budget finally over here, it looks like the biggest telephone book in the world and I know that I am totally incapable of grasping it in the time available. The Executive Department starts off, July 3, I believe is the day. They start working on the next budget. Then in the fall, some time, the Services have ironed out with the Department of Defense, and the Secretary of Defense has made his decision. Then it goes to the Bureau of the Budget some time in the late fall and it has to be decided in the early winter in order that the President can make his speech to the Congress, or his annual message. Is that about right?

Mr. MCNEIL. Yes.

Senator SYMINGTON. In January.

Mr. MCNEIL. Except, as I say, we have eliminated that second set of hearings in the Bureau of the Budget that used to take from September to December. Now, we have consolidated those to save some time and get a better job done.

Senator SYMINGTON. Yes. When are you through with the Bureau? That is interesting.

Mr. MCNEIL. About December 15.

Senator SYMINGTON. About December 15. In any case—and there is nobody who would know better—give me your frank opinion as to just how long the Congress has to analyze the budget prior to the time, for example, when you come up to the Senate Armed Services Committee for authorization of the program.

Mr. MCNEIL. Well——

Senator SYMINGTON. Senator Russell likes to get it over with as soon as possible, so would you say he had 30 days?

Mr. MCNEIL. In the House—I beg your pardon?

Senator SYMINGTON. Thirty days? Would that be too much or too little?

Mr. MCNEIL. It is about 30 days, 3 weeks to 30 days, before the first hearings before the House Appropriations Committee.

Senator SYMINGTON. I was going to say, it would be a little less than 30 days and, therefore, except for your appearance before the Appropriations Committee, which would be later, April or May——

Mr. MCNEIL. Well, in the House, they have been starting about the first of February and running through until the last week in March or early April—about 3 months.

Senator SYMINGTON. That is right, so even in that source of all the money, you have a very short time. Therefore, my question is, what would you think of Representatives in the Congress now—let me hasten to add—with no authority and probably no right to speak except to ask questions at the meetings—but say that members of the Appropriations Committee of the Congress, staff members, who would, of course, have to be approved by the executive branch, being allowed to sit in on the formulation of the budget. What would you think of that?

Mr. MCNEIL. It would depend on the definition of "sit in."

Senator SYMINGTON. That is right.

Mr. MCNEIL. As far as inquiring constantly through the whole 6 months' period, I would be happy to show what we were doing and why. However, as to the question whether they were to sit in at the meetings where the decisions are made, I would question whether that would be quite the right thing to do. They could, however, live with us close enough to know what was happening and what was in the budget and why. I think the latter might be very helpful to all sides.

I might add this, sir, and this is a personal view—that if we could find some way to have a professional staff, who could serve, let us say, both the House and the Senate, in order that a more complete job would be done by individuals who were experienced in aircraft, in electronics, in research, in personnel—it would not take a very big staff—the Appropriations Committee could know what was happening and what was in the budget. When our hearings start in both the Senate and the House, they would have presented to the committees certain policy questions and the pros and cons of principal issues so that there would be a more direct and incisive approach to the problem.

I think it would be helpful to both the executive branch and the Congress.

Senator SYMINGTON. Now, you say you work from the first of July in the executive branch, from the first of July to, say the middle of January, as a guess. That is 6½ months.

Mr. MCNEIL. Yes.

Senator SYMINGTON. And during that time you have the capacity to analyze, check and recheck your program?

Mr. MCNEIL. Yes.

Senator SYMINGTON. And when you get through you give us a telephone book—and it is a beauty—and in it is 65 cents of our tax dollar, and maybe more than that if you extend it into other fields that are ancillary to defense, like atomic energy.

So you have at least 65 cents of your tax dollar and we, in the Congress, from an authorization standpoint, have 3 weeks' to 4 weeks' time to analyze before we act.

So my feeling is, based on the experience in this side of the Government as well as on the other side, that, regardless of whose fault it is—I am not blaming anybody—the system has grown to a point where now the check by the Congress is pretty theoretical.

Mr. MCNEIL. Well, sir, we are attempting to close that gap. I do not know how adequately, but in recent years, and this year again, in order to put our program before the Congress so that it can be better understood in a reasonable length of time, we have been preparing about a 60-page document which is submitted to the Appropriations Committees, called the Budget Highlights. There we show our asset position, what we have, what we have used, and have not used, our expenditures by major appropriations, expenditures expected for the following year as well as the past, and an outline of major programs in terms of materiel.

As to aircraft, it lists the aircraft by type and model, and also shows the inventory by type and model, as well as the production and acceptance schedules.

On the section for ships it shows what the situation is on the ships under construction and the details of the new conversion program. It covers also personnel, Reserve forces, those in drill pay, and so forth.

I agree that the budget document does not give a very good picture, even if you are familiar with it, of what is intended to be accomplished. We think our Budget Highlight book does a great deal more.

Senator SYMINGTON. Yes.

Mr. MCNEIL. Of course, one of the problems is that a great deal of that material in the Budget Highlight book is classified. Some of it is not, however, and could be used generally.

Senator SYMINGTON. Let us take a typical illustration and I will not labor it any further. But take the Nike and the Talos. There a subcommittee of our Armed Services Committee is in the process of analyzing that situation, and I am sure that their beliefs will have considerable impact—I am not on the committee—with the Senate Appropriations Committee when that matter comes up. It involves millions of dollars.

Mr. MCNEIL. Yes.

Senator SYMINGTON. And yet they do not really get much of a chance to really test the performance of the two weapons in accordance with Senator Jackson's suggestion which I thought was quite sound. There seems to be a question about the relative merits of these weapons. Also, one missile is considerably less expensive than the other, and, therefore, the taxpayers are deeply interested. There seems to be a difference of opinion, right in the Pentagon itself, as to which is the better. This is the type and character of thing where I believe we ought to have more time, if possible, before authorizations and appropriations are handled.

Mr. MCNEIL. Going back to the thought that I expressed a moment ago, maybe it would be asking too much, but if the House and Senate jointly could have a professional staff of 6, 8 or 10 knowledgeable specialists in particular fields whether it be personnel, consumption-type material, aircraft or electronics, so that they kept abreast of the program, then when the hearings were opened, I think their attention would be directed to developing policy-type questions, and the staff could have ascertained the reasonable accuracy of our proposals, as far as the detail was concerned, and it might be helpful to all sides.

Senator SYMINGTON. I would agree with that.

Mr. MCNEIL. I would urge——

Senator SYMINGTON. Would you object, for example, to this as an academic approval? Suppose the House Military Subcommittee of the House Appropriations Committee assigned a man to the 3 services, because your budget originates in the 3 services prior to it being presented to the Secretary of Defense; right?

Mr. MCNEIL. Yes.

Senator SYMINGTON. And that that man followed the reasons why the budget proposals were what they were. In your meetings, he would have absolutely no authority. In fact, it would be understood that he did not talk; he just registered. And then he would come to you or somebody you assigned for clarification after the meetings in question. But then he could come back and report to Congressman Mahon and Congressman Cannon, the chairman of the full committee,

or, if it is shifted around, Congressman Wigglesworth and Congressman Taber, and they would have a feel of it as the budget was formulated, you see? That is my only thought about it.

Mr. McNeil. Well, I do not believe it should go quite that far. I would think not as far as participating in the decisions, even as an observer. I see nothing to prevent, however, such a staff member having program information by living there and following programs constantly, let us say, the electronic program constantly all the way through, so that he became knowledgeable, but without getting into the phase of the question dealing with participating in decision meetings even as an observer.

Senator Symington. Would he be more knowledgeable? Except for Senators with a genius for figures, like Senator Byrd, or I remember Senator Case when he was on that committee in the House had a very rapid grasp of it—it seemed to me that the average Senator would have a better understanding of what they were putting up these billions upon billions of dollars for. That is the basis of the thought.

Mr. McNeil. For my part, I would welcome a more intimate interest by the two Appropriations Committees on a year-round basis than we have had. It would be helpful if it could be handled by one single joint staff although I do not know whether that is possible. One of the real problems that we have—and I think you probably experienced it some years ago yourself—is a considerable number of different groups of people looking into our programs, but frequently just shallowly, because they do not have time to spend on it. It would be helpful for us to have fewer groups—as, for example, a single joint staff—on a continuing but more thorough basis.

Senator Symington. Right.

Mr. McNeil. And so if we could get a——

Senator Symington. And all the way back to the Voorhees committee days. Do you remember?

Mr. McNeil. Yes, sir.

Senator Symington. Now, let me ask this. Would you be good enough to furnish this subcommittee with a statement along these lines, which would not in any way commit you, but to express, if it were done, what your thoughts were as to the best way of doing it?

Mr. McNeil. Yes.

Senator Symington. Senator Martin, would you have any objection to that, sir?

Senator Martin. Not at all.

Senator Symington. Without objection, then, the subcommittee will request that the Department of Defensse and its Assistant Secretary in charge of the money will give the subcommittee his idea as to how this aspect of budget procedure could be best handled from the standpoint of more time, which would automatically mean more knowledge on the part of the authorization committees and the Appropriations Committees regarding the budget of the year in question. (The information requested regarding a joint staff for the Apropriations Committees of the Senate and the House of Representatives follows:)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON 25, D. C.

In the course of my appearance before your committee on S. 3188, it was indicated that your committee would desire to have my personal views as to how the appropriate committees of Congress might best secure a more meaningful and comprehensive understanding of the legislative and appropriation requests presented to the Congress. Because the question was developed during consideration of accounting and budgetary aspects, it is assumed that, while the word "legislative" was used that any contribution that I might be expected to make would be primarily from the budgetary aspects and as it affects the Appropriations Committees.

Generally, the problem would deal with the preparation, presentation, and subsequent consideration by the Congress of requests for appropriations, and it seems to me that it can be subdivided into two rather clear-cut phases. The first, dealing with the preparation and presentation of the budget has many facets. By the enactment of title IV of the National Security Act, as amended, the Congress indicated rather clearly that the performance-type budget was to be adopted. The performance budget contemplates that all costs relating to a logical and identifiable program be included as a project or a budget program, that there be a logical grouping of projects or budget programs by the primary functions of the military departments, and that there be a segregation between capital and current operating costs. These are the most important elements for proper consideration both within the executive branch and by the Appropriations Committees of the Congress.

While there is considerable work yet to be done, considerable progress has been made toward this objective in all the services. The most recent example of an individual step toward this objective was the development and presentation to the Appropriations Committee of the House of Representatives, of a revised structure for the maintenance and operation appropriation for the Army. The fiscal year 1958 budget is to be submitted with all pertinent costs of some 35 identifiable programs, each complete in itself. During fiscal year 1957, the Army's efforts in this would be devoted toward making the transition. It is my belief that when this is effected for the first time we will have a completely understandable and largely simplified structure for the presentation of the appropriation request.

There are many additional steps being taken to resolve this problem of making an understandable budget and program presentation. One is development of a system that gives proper measures of consumption. Real progress is being made in this direction by establishment of the stock fund principle in all three military departments. This principle, simply stated, means that material of a consumption nature taken off the shelf for use is charged to the current-using appropriation, thus providing both better knowledge and increased control by the Department and the Congress of expenditures in the broad field of maintenance and operation.

Another step of a similar nature is the expanding application of the principle of financing industrial and commercial-type activities by working capital funds—sometimes loosely termed the "corporate principle." This provides a customer-supplier relationship and, at the same time, provides a simple and effective way of ascertaining the costs of goods and services produced by Government-operated activities. An additional large segment of this program was approved by the House Appropriations Committee in its report on the Department's request for appropriations for fiscal year 1957.

The adoption of a system providing for financial accounting for property and resultant improvement in inventory management represents additional progress toward the desired objectives.

I would like to repeat that all of the above are excellent steps under any kind of organizational or procedural plan for proper preparation, presentation, and consideration of the Departments' budget request, and I am in full accord with the committee report at the time of enactment of title IV which stated that "The performance budget does not dilute, but strengthens, legislative control and responsibility" and again where the committee said "As a matter of fact, the performance budget sharpens congressional control over the Department of Defense by giving more comprehensive and reliable information" and that "it affords the individual Members of Congress the means of understanding what the Military Establishment is doing and what the costs are."

The second part of the overall problem, it seems to me, deals with the organizational and procedural aspects of congressional consideration of the departmental appropriation requests. As I mentioned in my testimony of March 27, I do not believe it would be particularly helpful to consider a plan which contemplated congressional staff representation in the course of the preparation and formulation of requests to be made of the Congress, to the extent of participating in decisions that were being made as to executive branch recommendations which were subsequently to be made to the Congress.

During my testimony I did state, however, and would like to repeat, that I have personally felt that it would be helpful if the Appropriations Committees, simpler method of understanding the various aspects of our programs and the underlying policies related thereto, and that a small staff of specialists in the various fields of procurement, personnel research, etc., might be of substantial assistance to the committees. Presently, the competent, hardworking staffs of the two Appropriations Committees have little time to pursue on a continuing and specialized basis the underlying aspects of the many various important programs of the Department.

In the past, the committee chairmen have, on numerous occasions, named what might be termed "ad hoc" committees or groups to examine our requests and the underlying policies. For the most part, the personnel chosen from outside sources have been competent, but in each instance have had the disadvantage of having to pick up from the beginning and file their reports at the end of 2 or 3 months. It would seem to me that rather than depend on short-time specialists' efforts in this regard, the committees could be assisted by a small group of specialists working on a continuing basis under the supervision of the present staff directors to analyze requests and relate them to underlying policies, thus providing committee members with less individual effort on their part with the basis for a comprehensive understanding, review, and interrogation. Naturally, from the point of view of the Department, it would be helpful if such a continuing analysis and review could be made by a single group under the joint staff direction of both committees. However, the manner and the extent to which the Appropriations Committees desire to pursue their analysis and review is a matter entirely within their province.

W. J. McNeil.

Mr. McNeil. Would I be getting into hot water if I suggested——

Senator Symington. We can go off the record.

Mr. McNeil. In such a statement that it would be nice if the two committees could have a single staff. Is that asking too much?

Senator Symington. Not at all.

Mr. McNeil. I do not mean——

Senator Symington. I do not know that it would be agreed to, but I personally see no objection to it. It would just be a question of the division of the legislative responsibility, just as we talk about the division of powers in other matters. Nobody in the Government has had as much experience as you have had now in this feature of the overall Defense Department picture, because you have been with it since the beginning and you had great experience before the three services were combined into the Department of Defense. I think the subcommittee would be tremendously interested in anything that you might have today on any basis as to how the Congress can have a better chance to analyze the budget before we are obligated to pass on it.

Mr. McNeil. I would be glad to, sir.

Senator Symington. On the military budget.

Mr. McNeil. Incidentally, when I mentioned one staff, I did not mean that each Appropriations Committee would not have its own staff to handle their respective bills. I was merely thinking of the single staff for specialists in these different technical or program fields.

Senator Symington. I understand that. And the whole budget system in the Congress is a fluid and functional one, where there is

a close relationship that ultimately becomes completely identified as a result of conferences in the event of possible disagreements.

Mr. McNeil. Yes. I would like to think our budget would be accepted by the Congress on the basis of knowledge that it was sound all the way through and there were good reasons for things that were being done.

Continuing with section 2 (b) of the bill, this section would amend section 113 of the Budget and Accounting Act to require each agency to maintain its accounts, on an accrual basis in accordance with standards prescribed by the Comptroller General, to show currently, completely, and clearly the costs, resources, and liabilities of such agency. It is further provided that the accounting system required shall include monetary property accounting records. These accounting requirements naturally should accompany the use of the cost basis of budgeting.

It is doubtless not intended to imply that an agency should maintain its accounts exclusively on an accrual basis, because that would mean the agency would not maintain its accounts on the basis of available appropriations and administrative subdivisions thereof in the manner otherwise directed by the Congress in order to prevent the overobligation of funds and incurring of deficiencies prior to the recording of costs or liabilities in the accounts on the accrual basis. In order to adequately control its funds, each agency must continue to account for obligations incurred in advance of costs. In other words, it must go beyond the accrual basis of accounting as generally practiced in industry.

Senator Symington. Now, I am sorry, but I do not quite understand that—

In order to adequately control its funds, each agency * * *

When you use the word "agency," do you mean each service?

Mr. McNeil. Each department.

Senator Symington. Each department; each service, in effect.

Mr. McNeil. Yes.

Senator Symington. Including the Department of Defense?

Mr. McNeil. That is right.

Senator Symington. You could consider the Marine Corps from this standpoint as part of an agency?

Mr. McNeil. Yes, sir; or any other executive department.

Senator Symington. I see. You say:

In order to adequately control its funds, each agency must continue to account for obligations incurred in advance of costs. In other words, it must go beyond the accrual basis of accounting as generally practiced in industry.

Mr. McNeil. That is right.

Senator Symington. I am not quite sure I understand that.

Mr. McNeil. Well, if Congress provides us $1 billion to maintain and operate 1,000 posts, camps, and stations scattered around the world, we cannot use over $1 billion. We must have the mechanism to see that we do not.

Senator Symington. Unless you come in for a supplemental.

Mr. McNeil. Yes, that is correct. But would the Congress desire us to let each station commander spend whatever he chose on an accrual basis and then add up the costs, and if we are short, come up and ask for more money?

Senator SYMINGTON. Yes. But I used to have about 100 distributors all over the country, and they were given certain allowances. Believe me, there was no idea that we would approve any excess above that allowance unless they came to us and justified it.

Mr. MCNEIL. That is right.

Senator SYMINGTON. So I do not quite see the difference between the cost control of industry and the cost control of Government in that particular case.

Mr. MCNEIL. There is a difference. It is not too great a difference. But many people, when they loosely talk about, "Well, we will just go on the accrual basis," think that is the solution. But there must be also the mechanism which you use in business, but in business if your sales went up, you could authorize them to go further; in our case, we cannot do it just within ourselves beyond the limit that Congress has authorized. Our control has to be a little sharper.

Senator SYMINGTON. I see. You think in business you could do it probably on the premise that the President had trust and confidence of the board of directors? You could do it as an Executive decision——

Mr. MCNEIL. That is right.

Senator SYMINGTON. Whereas here under the law you must get the approval of your board of directors, which in this case is the Congress; is that your point?

Mr. MCNEIL. That is right.

Senator SYMINGTON. I see.

Mr. MCNEIL. Therefore, our control has to be a bit more precise.

Senator SYMINGTON. And formal?

Mr. MCNEIL. And formal.

Senator SYMINGTON. I see.

Mr. MCNEIL. That is really the point we are making.

Senator SYMINGTON. I think I stopped you at "moreover."

Mr. MCNEIL. Moreover, it is necessary that each agency shall maintain accounts on a cash basis, as also required by the Congress, in accounting for appropriations on the books of the Treasury, in determining the annual cash surplus or deficit of the Government as a whole, and in order to account for expenditures in relation to amounts budgeted.

There has also been some misunderstanding on the part of some accountants outside the Federal Government of the special accounting needs of the Government and some impatience with the maintenance of the obligation and expenditure bases of accounting.

Senator SYMINGTON. Now, you were so clear in your previous definition that I would appreciate your dwelling on this a little bit.

Mr. MCNEIL. Well, during discussions with several groups from outside accounting firms, and some from business, there has been some impatience with the fact that we felt we had to maintain control over obligations, and to see that we did not obligate more than Congress gave us for a particular service or program.

Senator SYMINGTON. This bill from that standpoint would help you a little bit, would it not?

Mr. MCNEIL. I do not see where it would help it, sir. I do not believe that would change.

Senator SYMINGTON. Well, let us see, now. You would have a direct return on your expenditure situation on the basis of one-fifth of

a 5-year program. That might tend to make you more careful in your estimating, that you say has been so much improved, as against your actual needs. I think that is pretty direct. I will agree with you.

Mr. McNeil. There have been those also who, while recognizing requirements for maintenance of accounts on the basis of obligations and expenditures, have proposed the maintenance of separate accounting systems on the accrual basis, including resources, liabilities, and cost of operations, independent of, or overlapping the accounting for the appropriated funds for which the agency is accountable. In general, it is usually proposed that such separate accounts be reconciled with the appropriated fund accounts so far as obligations and costs are concerned, but generally there is no consideration given to accounting for resources and liabilities in relation to the specific appropriation and fund subdivisions.

I can add a bit to that. We have had several proposals made that accounting should be done on the accrual basis without regard to the source of funds. We believe that any accounting system we establish on the cost basis must tie in to the way you people give us the money, and do it in a single system.

I hate to take the time of your subcommittee with this type of detailed discussion, but this is one of the points that has caused, I would say, some delay in going ahead with a firm program for fiscal improvement in the executive department.

Senator Symington. As long as you understand my position on this, speaking for myself only, I do not think you can have a more important hearing than this on the Hill, because if we do not somehow get the record out so that we start building in the Department of Defense on the basis of progress, the free world, from the standpoint of defense, is going to lose. And the only way I know to earn more money if your sales stay the same and you have these long-term programs, is to reduce your costs.

So what we are really talking about here is how to get more defense for the taxpayers' dollar; is that not correct?

Mr. McNeil. That is correct, sir.

Senator Symington. And what could be more important than that, with the whole concept of our way of life in the balance? So don't you worry about the time you take.

Mr. McNeil. This gets a bit on the technical side, and I did not want to lead you in too much detail. But we are getting at the heart of some of the reasons we have not adopted the incomplete accrual plan and gone ahead with it, I believe.

While we agree that the use of the accrual basis of accounting is desirable to the extent of providing the same basis of accounting as required for budgeting on a cost basis, we believe it is important that there be no indication in the bill of either implying possible elimination of the obligation and expenditure basis of accounting for funds or any possible requirement to duplicate such accounting through the use of another system, even with the understanding that there be reconciliations between the two systems. The accrual basis of accounting can be integrated within the basis of fund accounting without the use of any separate system of accounts, nor requirement for a reconciliation between separate cost and obligation accounts. Such integration

is often facilitated by the use of revolving funds, as in the Department of Defense, for financing inventories of consumable materiel and production of goods and services in industrial and commercial-type activities, for sale to activities financed by appropriated funds.

The proposed bill would provide that the Comptroller General prescribe standards for implementing the provisions for establishing the accrual basis of accounting. We believe this responsibility should be in the executive branch of the Government, in the Director of the Bureau of the Budget. Such standards are not separable from standards for the cost basis of budgeting.

Senator SYMINGTON. Let us get into that just a minute here: "The proposed bill would provide that the Comptroller General prescribe standards for implementing the provisions of establishing the accrual basis of accounting."

Now, what do you mean by that, Mr. McNeil? That is nice language there, but I can't quite follow it.

Mr. MCNEIL. It is stated in section 2 (b) of the bill, and my point that I wanted to make, sir, was along the lines we discussed about an hour ago. I think we have accounting tie-in to a financial structure in such a way as to encourage or force management decisions. And there is too much of a tendency sometimes to develop accounting for accounting's sake—to see that two columns balance——

Senator SYMINGTON. I will agree with that.

Mr. MCNEIL. Instead of gearing it so that the boss can better run the business.

Senator SYMINGTON. I will agree with that. In other words, it is a straight recording proposition to assure that you have not done anything unethical or illegal, but no real effort to improve your performances or your operations as a result of the figures that you have recorded; is that correct?

Mr. MCNEIL. And while the Comptroller General has some very excellent people, and he himself, I think, is quite competent, my point is this, that the emphasis there in that agency must be, and properly should be, on accounting and audit. But I think the emphasis in our Department has to be on getting figures that help senior commanders, secretaries, and managers to be better able to run the business.

So I would like to put the emphasis on that, but certainly would expect the Comptroller General to examine them to see whether they satisfied good accounting objectives—that is fine—and if they did not, take action with you people to bring us into line.

That is all right. But I want to repeat, I want the emphasis on accounting to run the business, and not for accounting's sake alone.

Senator SYMINGTON. I would like to make a comment. But before I do, would you complete reading at the top of page 9?

Mr. MCNEIL. I did not understand you.

Senator SYMINGTON. I said, I think you stopped at "we believe" at the top of page 9.

Mr. MCNEIL. Yes. I have just covered the balance of that paragraph in my comments, sir.

Senator SYMINGTON. Will you read it again to be sure?

Mr. MCNEIL. We believe that this responsibility should be in the executive branch of the Government, I think in the Director of the Bureau of the Budget.

The standards for accounting, I think, have to be such that they tie in to the cost basis of budgeting, or whatever system of budgeting you are using.

What I am really saying is that I think it is an executive branch job, because it is a management job.

Senator SYMINGTON. Nobody has more respect for the General Accounting Office than I have under its great former manager, the Honorable Lindsay Warren, and also under its present fine manager, the present Comptroller. But what you are saying here is that you believe that the functioning cost systems incident to the handling of the Department of Defense are an administrative matter for the executive branch if you are going to get management control through cost control; is that correct?

Mr. MCNEIL. That is right.

Senator SYMINGTON. And you do not believe that the General Accounting Office should reach into the methods used, although they, of course, have full supervision over the results?

Mr. MCNEIL. Yes, sir.

Senator SYMINGTON. Is that correct?

Mr. MCNEIL. Yes, sir.

Senator SYMINGTON. I am inclined to agree with you on the principle involved.

Mr. MCNEIL. Yes, sir.

I want to add that the Comptroller General and the General Accounting Office have been of great help to us, back during the war and since. That is why I said that they have some very fine people.

Senator SYMINGTON. There is no better organization in Government.

Mr. MCNEIL. I do not think they need confine themselves strictly to audit in the narrow sense, but rather audit and reporting to you as the board of directors, as to whether our systems are working, and so forth. That is fine.

Senator SYMINGTON. And if they get too far into the details of your method of cost control or management control through cost control, then in effect they are assuming an authority for which they do not have the responsibility?

Mr. MCNEIL. That is correct, sir.

Senator SYMINGTON. Is that right?

Mr. MCNEIL. That is right.

Senator SYMINGTON. I might add, Senator, that the Secretary and I have never discussed this matter before. At least, if we have, it was not less than 6 years ago.

Mr. MCNEIL. Six years ago.

Senator MARTIN. You are doing all right.

Mr. MCNEIL. For these reasons we suggest a complete restatement of the proposed section 113 (c) as follows—something along these lines:

(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Director of the Bureau of the Budget, cause the accounts of such agency to be so maintained as to show completely and clearly all expendable resources, liabilities, available balances, and costs incurred as well as obligations incurred, under each appropriation and allocation or allotment thereof, with a view to facilitating the preparation of agency reports to include cost

data as required by section 216 of the Budget and Accounting Act of 1921. In addition, the accounting system required shall include adequate monetary property accounting records, integrated with the appropriated-fund accounts. Wherever desirable to facilitate this integration, the use of revolving funds shall be encouraged to finance procurement and inventories of consumable materiel and production of goods and services for sale on a reimbursable basis to consuming activities financed by appropriated funds.

I want to touch on a point there. In my experience, I have found that the use of revolving funds to maintain inventories of consumption-type materiel is one of the greatest steps forward in encouraging both better management of inventories, the adoption of better merchandising methods, as well as providing one of the finest methods for measuring the value of materiel consumed in getting a job done, and it is virtually automatic. It is virtually automatic because when it is sold for consumption, you have a measure of what it has taken to get that job done. And in effect it fits right into a system of budgeting on the basis of cost of consumption.

Senator SYMINGTON. Yes.

Mr. MCNEIL. So we feel that every place where we have established a revolving fund, we have made real profit for Uncle Sam.

It takes some time to shake it down, and people have to set used to handling it, but wherever it has been installed and properly operated it has been working very well.

Now, section 2 (c) of the act would further amend the Budget and Accounting Act by adding section 120 to establish in the Bureau of the Budget under the supervision of the Director thereof, a staff Office of Accounting, the head of which shall be the Assistant Director of Accounting.

The Department of Defense sees merit in this recommendation from the standpoint that it would provide a better means of effecting improved integrated budgeting and accounting for the Government as a whole, and this would have an impact upon the Department of Defense as well as other Government agencies. Logically, the functions of budgeting and accounting improvements go hand in hand and both are properly placed within the executive branch of the Government. Therefore, if legislation is believed necessary, we believe it desirable that the Budget and Accounting Act be amended, consistent with the establishment of this function in the Bureau of the Budget, to provide that all budgeting and accounting principles and standards should be established by the Director of the Bureau of the Budget in the executive branch of the Government rather than by the Comptroller General.

And, I might add, for the reasons we discussed a moment ago.

Senator SYMINGTON. Yes. In effect, the General Accounting Office is an arm of the Congress; is it not?

Mr. MCNEIL. Yes, sir.

Senator SYMINGTON. And the Director of the Bureau of the Budget is an arm of the executive?

Mr. MCNEIL. That does not mean that day after day they cannot be very helpful, and we might turn to them for assistance some time.

Senator SYMINGTON. Yes.

Mr. MCNEIL. The proposed bill would also amend the Budget and Accounting Act by adding section 121 which would establish requirements for the head of each executive agency to appoint a comptroller to be directly responsible to him.

Senator SYMINGTON. Who is "him"?

Mr. MCNEIL. That is intended to mean the head of the agency, each department of Government.

Senator SYMINGTON. In other words, it would refuse him the power of executive delegation; is that right?

Mr. BORDNER. No.

Mr. MCNEIL. No. I think, sir, we have used the word "him" and we should have said "the comptroller responsible to the head of such executive agency." We are just defining "him."

Senator SYMINGTON. Yes. But when you say "the head of such executive agency," you preclude his being able to delegate that responsibility to anybody in the department; do you not?

Mr. MCNEIL. That is right.

Senator SYMINGTON. And that is a management decision that you are going to establish by legislation; is it not?

Mr. MCNEIL. Yes; that would be the result of it. However, I do feel that the Comptroller in our Department, the Comptroller of the Air Force, should report to the head of the Department, and in the field the Comptroller should report to the commander.

Senator SYMINGTON. But then you get into this problem that we had, where the question was: Was he to be a civilian or was he to be a military man? And I think we decided that if the No. 1 man was to be a civilian, the No. 2 man had to be a military man, and vice versa; is that right?

Mr. MCNEIL. That is right.

Senator SYMINGTON. Is that still the way it is?

Mr. MCNEIL. That is still the way it is. But I did not care whether he was military or civilian, as long as we got the best man for the job.

Senator SYMINGTON. Yes. But my only point is that if you have a lieutenant general as the Comptroller, it is pretty difficult to segregate him from the chain of command and put him under the Secretary of the Air Force or the Secretary of the Navy. This would seem to be an arbitrary law that that is what you have to do if you made a military man Comptroller.

Mr. MCNEIL. Well, that problem would arise, sir. Of course, in title IV of the National Security Act, we already have this legislation in the Department of Defense.

Senator SYMINGTON. When the subject came up, I think that some of us felt that the important thing to do was to get the right man, and not to have any arbitrary establishment that he had to be a civilian or he had to be a military man.

Mr. MCNEIL. Of course, since then, Congress has established in Army, Navy, and Air, an Assistant Secretary for Financial Management, and that gets us into one more facet of this problem.

Senator SYMINGTON. That is right. I can see that.

Mr. MCNEIL. Is "financial management" a broader term than the word "comptroller"?

Senator SYMINGTON. Yes.

Mr. MCNEIL. If a comptroller is merely to see that the facts and figures are together, that is one job. Then, next comes the analysis of the programs to show progress, efficiency, and so forth, and it gets a bit broader than sometimes is considered the definition of a "comptroller."

Senator SYMINGTON. Running through this bill and analyzing it in your statement here, it seems to me that you are trying to legislate management functions. That may be an oversimplification.

Mr. MCNEIL. I believe this bill—we are trying not to be too critical of it, but certainly it does—and I think most of these are things that can be done administratively, everything in the bill, partically, but if you chose to pass it or to pass a bill of this type, we were attempting at least to give our thoughts on it.

Senator SYMINGTON. Yes.

Mr. MCNEIL. This section also provides certain specific functions and duties of the agency comptrollers.

We have certain thoughts to express on this point. First, it is not necessary in the case of Department of Defense, because title IV of the National Security Act covers this subject on a much broader basis. And, if this act is passed, we feel it quite important that this proposed legislation not supersede or take the place of title IV of the National Security Act, although I am not sure that the language of the bill would have that effect.

Next, the Comptroller's functions, as provided by the bill (in the language of the statement of the Department of Defense views), we think greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, I think his budget responsibilities are even greater.

Senator SYMINGTON. Now, when you say that, Mr. Secretary, just what do you mean by that, "his accounting responsibilities are obviously important"; do you mean his management responsibilities when you talk about budget responsibilities?

Mr. MCNEIL. No.

Senator SYMINGTON. What do you mean by that?

Mr. MCNEIL. I believe I describe that a little later in this paragraph——

Senator SYMINGTON. All right.

Mr. MCNEIL (continuing). If I do not cover it at this point.

Senator SYMINGTON. I am sorry.

Mr. MCNEIL. We do not think that the Commission's report adequately set forth the concept of the Comptroller or, in our case, the Assistant Secretary for Financial Management in Army, Navy, or Air, or Defense, in that he should provide an independent review and analysis of budgets, as well as reports on performance and that he should assist the Secretary of the Department as a coordinator, in reconciling and balancing with other programs the budget claims for financial support of the several fields of operating interest, each program having its advocate at the top level, and balancing those with the potential resources including the spending authority granted by Congress.

This does not mean that the Comptroller or Assistant Secretary for Financial Management actually controls the operations or serves as general manager or is the superior of his teammates who have the responsibility for actual operations. The reason I say that, is that it is the one place in Army, Navy, and Air where all the various programs come together. I think the analysis of the various programs and fund requirements should be given to the Chief of Staff or the Secretary, who must make the decisions. The same principle would apply

in the case of field commanders. His job is to analyze the programs and present all the facts in connection with them.

Senator SYMINGTON. This is one place where I might run into a little disagreement with you, because, first, you have the question of the Comptroller and then you say "or Assistant Secretary for Financial Management." That is an internal problem so that you do not have dual lines of responsibility and authority on an organizational chart. On the other hand, the Comptroller should in no sense be a policymaker. That is correct; is it not?

Mr. MCNEIL. That is right.

Senator SYMINGTON. And if he is not a policymaker, then he is fundamentally a staff man and not an operating man. Would that be a fair statement?

Mr. MCNEIL. That is correct.

Senator SYMINGTON. And, therefore, his position would be purely one of an advisory nature and he would be used as much or as little as his chief would want, who would be say, in your case, the Secretary of Defense, or the Deputy depending on how you operate your delegation. It would depend on how much he wanted to use you.

Mr. MCNEIL. That is correct.

Senator SYMINGTON. On the other hand, as I see it, if we agree to that; we do not want to have the law arbitrarily rule out any position of policy that might be delegated to you by the Secretary of Defense; is that it?

Mr. MCNEIL. That is correct, but a little more than that. The bill deals with accounting only; I mean it emphasizes accounting. We think it is too narrow in that respect.

So, assuming that the Head of the Agency chose to use him only as a staff to get the things together, to present analyses of this or that for his use, and that he had to stay out of the room whenever decisions were made—say you carried it that far. Even so, the language in this bill emphasizes accounting but not those other facets which I think are very important, which is an explanation of what figures mean.

Senator SYMINGTON. In other words, the bill emphasizes the recording angle, as you see it, at the expense of the interpretation of accounting to get better management; is that it?

Mr. MCNEIL. That is correct; and performance.

Senator SYMINGTON. Now, of course, I would like to make it pretty clear on the record that there have been comments that there is already too much control by the Comptroller. Someone has said that he who controls the purse strings, controls all, and we have heard some criticism of the functioning in the Department of Defense on the basis that the Office of the Comptroller was abnormally predominant on the organizational chart. Would you like to comment on that?

Mr. MCNEIL. I have heard that, too, sir.

Senator SYMINGTON. Do you believe it is justified?

Mr. MCNEIL. No, sir; I do not. I will say this, that the money function is frequently the target of a rifle shot where perhaps a shotgun should be used. One reason for that comment is that decisions are frequently implemented through the money channel even though the money people did not make the decision.

Senator SYMINGTON. In other words, if the Secretary of Defense decides to put a money ceiling on the three services he has got to establish that ceiling by giving instructions to his comptroller?

Mr. McNeil. That is correct.

Senator Symington. Would it be in order at this technical hearing to ask if the Secretary of Defense has been putting ceilings on the Department of Defense or on each of the three services?

If my distinguished colleague from Iowa said that that is not a proper question for this hearing, I would be the first to withdraw the question.

Senator Martin. I have no objection.

Senator Symington. All right, there is no objection. How about that?

Mr. McNeil. Not in the form that I think you have in mind.

Senator Symington. Now, don't guess as to what I think, you say what you think.

Mr. McNeil. All right; not as to a total; there have been none.

Senator Symington. Not as to a total?

Mr. McNeil. A total.

Senator Symington. When you say "total" do you mean a total for each service?

Mr. McNeil. That is right. Now, on individual programs in different parts of the world, or different programs, "let us keep it to this figure until we see where we are going." Yes, that happens as far as individual management decisions time after time, and I think it is all right.

Senator Symington. You have to establish a total for the Department of Defense, do you not?

Mr. McNeil. That is right. Well, we haven't had any ceilings in the form in which we used to have the budget ceilings set at the beginning of the year. We haven't had those in the last 6 years.

Senator Symington. In other words, you have not had the Department of Defense say, "all the money that we are told by the executive branch, the President, and the Secretary of the Treasury and the Bureau of the Budget, the three who have the most interest with the President's authority"—you have not heard anybody say, "all the money that we can spend in the Department of Defense is so much for this fiscal year"?

Mr. McNeil. No.

Senator Symington. And, therefore, you have not had the Secretary of Defense say for each service or any of the services, "This is all the money you can spend for this year"?

Mr. McNeil. No. As a figure which it is hoped will me reached, yes, but no ceilings in the form that we used to have when, for example—I think you will recall in 1948 and 1949—we had a specific flat dollar ceiling before we even started to prepare the budget.

Senator Symington. Yes.

Mr. McNeil. Even after the budget was passed, we at times had a flat dollar ceiling on the amounts we were to spend during the year.

Senator Symington. And I thought that was wrong.

Mr. McNeil. We have not had ceilings in that form, although certainly there have been statements as, "we hope you can keep in this general ball park", but no ceilings like the old——

Senator Symington. If you had, say, five component parts to the Navy, and you said "each component part can spend only so much," in effect, would you not, after you added those all up be saying to the Navy that "you can only spend so much"?

Mr. McNeil. We have not had a blank check but neither have we had a rigid ceiling.

What I am really trying to say is that, "Now, what do you think is the least, or what do you think it will take to carry out this general program? Well, the amount will come out so much."

"Can't we get that down a little bit? We will set that for you as a target to try to reach."

But there has not been any mandatory ceiling such as we used to have.

Senator Symington. I do not want to belabor the question, but let us take this situation. We have had unclassified information given to us that the Air Force asked for so much money for 1957 and the Navy asked for so much money, and the Army asked for so much money, and in each case that request for money was materially reduced. I believe, also, that it was reduced in at least one case, heavily, in the Department in question before it was even presented to the Secretary of Defense.

Mr. McNeil. I think that is true in all three.

Senator Symington. Was it true in all three?

Mr. McNeil. Yes.

Senator Symington. If that is true, weren't you establishing a ceiling? It is sort of like the chicken and the egg but, nevertheless, are you not establishing a ceiling first in the departments from the standpoint of the civilian over the military, and then another ceiling of the top civilian over the three services?

Mr. McNeil. No, I do not believe it works quite like that, sir. I think you will find in this rather indefinite field in which we are working—by "indefinite" I mean nobody knows for sure whether this equipment is quite ready to buy or exactly what the opposition is going to do, or when, or if certain things will happen—initial estimates, prepared, let us say, at subordinate commands, are based upon their interpretation of perhaps some broadly written guidelines which include the words, "see that we have adequate reserves."

Well, adequate reserves can mean anything up to 5 years, as an example. Perhaps the general policy will be that "adequate" reserves are desired. but "adequate" reserves might be considered a year's supply on hand, although when it is translated at a lower echelon of a bureau, tech service, or command, "adequate" means, say, enough for 5 years.

In reviewing estimates the initial figure is brought down to a figure which conforms to the basic decision that we will have 6 months' or a year's reserves of this type of material. You will have a reduction in dollars. Without anybody intentionally padding the thing initially. It does not bother me initially to see a statement of the aggregate that anybody would like, whether they can justify it in good conscience or not, although it is difficult to handle and causes problems.

I recall many such instances. I recall an instance back in 1952 or 1953, and it serves today—there was a general policy that we wanted some mobilization reserves of Army equipment. But we had also decided as a general policy—and this was Secretary Lovett—that in the area of vehicles, that on the very-hard-to-get things, we would have substantial reserves; on the moderately difficult ones, we would have a lesser percentage of reserves; and on the commercial-type items,

we would have a minimum of reserves. Yet down in one wing of the building there were 5 officers in charge of 5 programs for 5 different kinds of vehicles. All of the five thought that they ought to have the same percentage, approaching 100 percent reserves, whereas Lovett felt that 10 percent of a theoretical reserve of commercial trucks was all right, but when we got the two and one-half, rather easily built trucks, that 25 or 30 percent was all right, and on the very difficult ones, 50 percent.

Yet the budget came in initially on all of those for almost a maximum mobilization reserve, not taking that into account.

Now, that would cause a big dollar reduction. But did it affect the real security of the country?

Senator SYMINGTON. In other words, what we have is certain goals, and the military say, "This is what we need to reach those goals," for example, a 137-wing program. And then you analyzed the budget and say, "Based upon what you have given us and our analysis of certain things"—and trucks is an excellent illustration—engine life might be another, and lead time might be a third, if we are just talking about appropriations and not expenditures, but then you say, "We think you can do it for less than that." Is that right?

Mr. MCNEILL. That is right.

Senator SYMINGTON. And, of course, that decision of the Secretary of Defense is final. But let me ask you this question——

Mr. MCNEIL. Let me add just one thing. You mentioned engines, and that is a difficult one. A couple of years ago, some engine requirements were shown in the budget for 225 percent spares as compared with installed equipment.

Senator SYMINGTON. Yes, I recall that.

Mr. MCNEIL. But if you examined currently what was going on at Sacramento and Norfolk and the naval installations, you would find that in the meantime the life of that engine had been extended to the point when probably 70 to 75 percent spare engine was about right. At that time, we were not sure that that would be true, and the budget went in for 110 percent spares. Before the money was spent, actually, it was brought down to 75. But we had 6 months in order to prove it.

Senator SYMINGTON. Yes. I think it is a very constructive and logical saving. That is the reason I mentioned engines.

Mr. MCNEIL. Yes; those kinds of things.

Now, we have another one right at the moment where we submitted a budget in December in good faith, calling for a certain number of very complicated computers. I think there is a requirement there. We now find that we are not going to be able to get them.

Senator SYMINGTON. So that automatically reduces your necessity for appropriation, and in no way affects your expenditures; right?

Mr. MCNEILL. Well, our expenditures will be down a little bit because we are not going to get them as fast. They are running into some difficulty——

Senator SYMINGTON. Oh. I thought you said you did not need them.

Mr. MCNEILL. No. I said I think the need is there.

Senator SYMINGTON. Oh, I understand.

Mr. MCNEILL. But they are not going to be able to make them.

Senator SYMINGTON. Now, let me ask you this question. What factors were used in setting up these targets or limitations by the Office of the Department of Defense prior to receiving the judgment of the respective service Secretaries and the members of the Joint Chiefs of Staff? What factors were used?

Mr. MCNEILL. I do not believe I quite understand your question, sir. Would you mind——

Senator SYMINGTON. You mentioned in your previous testimony, "targets," and this question the staff has asked me to ask. "What factors were used in setting up these targets or limitations by the Department of Defense prior to receiving the judgment of the respective service Secretaries and the members of the Joint Chiefs?"

Mr. MCNEIL. Well, it didn't work quite that way, sir.

Senator SYMINGTON. Now, you describe that for us, will you?

Mr. MCNEIL. First—we are getting considerably away from this bill, but it is a very pertinent subject——

Senator SYMINGTON. I asked you that——

Mr. MCNEIL. Well, in the first place, the Chiefs are the ones who recommend the basic force structure.

Senator SYMINGTON. Let me just interrupt you there. I do not think we are getting away from the bill, because we started talking about the position of the Comptroller in the question of policy.

Now, with the premise that the Comptroller is a staff man and not an operating man, I am in the most complete agreement that he should be in policy, because through him is the best chance for good management through good cost control, you see.

Mr. MCNEIL. Except that the final decision should not be his.

Senator SYMINGTON. I agree with that, of course. As I say, that is the premise of my statement, that he is a staff man. No staff man makes a final decision.

Mr. MCNEIL. Yes.

Senator SYMINGTON. But on the other hand, if you say that the Comptroller should be a man who goes beyond simple accounting procedure, I completely agree. You would never run a business unless you interpreted the figures to have better management. You would go broke in a relatively short time.

On the other hand, if that is true, then I think we have a right to say as part of the consideration of the bill as to what is the nature of the Comptroller's functions when he functions in a policy field beyond the accounting field. Is that not a fair observation?

Mr. MCNEIL. Yes, that is.

Senator SYMINGTON. All right.

Mr. MCNEIL. Of course, the question on the whole process of developing a plan goes a bit beyond the Comptroller function.

Senator SYMINGTON. Yes, except that the Comptroller is involved through the delegation of policy—and you, I think, said that it had to be done through the money when the decision was made. Then I would like to know what is the nature of the——

Mr. MCNEIL. I think I said "frequently." If not, I would like to amend it.

Senator SYMINGTON. Frequently. Well, let us get into electronics and take one of those "frequencies."

Mr. MCNEIL. Well, going back to the other, first, in the case of the basic force structure, which is the key, the Chiefs made a recommendation in 1953 for what was popularly called the New Look. This

was really a 3-year target for force levels. That established for the Army a force in terms of men in the neighborhood of 1 million men. It established a force structure for the Navy of about 1,000 ships of which about 400 would be warships, and for the Marine Corps 3 divisions, and 3 air wings, and for the Air Force 137 wings, broken down by it heavy bomber and bomber and fighter wings, and so forth.

Now, the Chiefs have never——

Senator SYMINGTON. Excuse me just a minute. As a matter of technical information, as an instruction to me, isn't that Marine establishment by statute as well as by decision of the Department?

Mr. MCNEIL. I believe it is, sir.

Senator SYMINGTON. Wouldn't that be a little different from the other three?

Mr. MCNEIL. Yes. But I think this came after the establishing of the so-called New Look as a target.

Senator SYMINGTON. Yes. When you revised the National Security Act of 1949, 3 divisions and 3 wings were spelled out for the Marines in the bill, were they not?

Mr. MCNEIL. No. I think it was in another act or another hearing or another resolution, but not in the Security Act, sir.

Senator SYMINGTON. All right. Go ahead.

Mr. MCNEIL. But anyway, that force structure also includes the number of personnel for the 3 services, or the 4 services, if you count the Marines as the fourth service.

The Chiefs, however, deal with the major force structure, and not with many of the collateral units, which take about half of the resources in terms of people and materiel. That is, there are always tow-target squadrons and small boats and tugs and those things which do not come into the basic structure.

The Chiefs' recommendations, as approved by the Security Council and the President, include a general statement of the degree of readiness, that they are shooting for. Considered also is whether they are planning for the long pull and whether they are shooting for a certain date. If they are shooting for a certain date, then things are more the result of mathematics. If they are shooting for the long pull, it requires a great many management and judgment decisions.

Following that, there is usually issued by the Secretary of Defense a guidance statement. That is made up based on drafts, and participated in by Army, Navy, and Air as well as the Assistant Secretaries of Defense for research, engineering, and supply, and so forth. Finally it is issued.

Now, there again appear broad statements and frequently the word "adequate" is used, which can be subject to a great many interpretations, of course, depending upon how close the people are to an understanding of what you are trying to accomplish.

Based on that, on those two things, Army, Navy, and Air begin the preparation of their more detailed plans as to new procurement and as to the bases they desire be operated and maintained.

Incidentally, the force plan also includes the number of aircraft by types and divisions and regiments to be maintained.

There is one more thing that is involved, and that is the general statement as to the level of mobilization reserves by classes of items that are to be achieved in any particular time period, that is, X

months of supply will be on hand and maintained indefinitely until the policies change.

Then Army, Navy, and Air prepare their estimates and using certain criteria, they will estimate the number of flying hours, the number of steaming hours, the number of maneuvers, for example, in the Army. Those will be translatetd into materiel requirements and requirements in terms of people and employment.

Those estimates are submitted then, first, in Army, Navy, and Air and in that process invariably there are a number of things that were brought to the attention of the chiefs of service and the Secretary, that they do not plan to do in this particular year.

As a consequence, some estimates are changed.

The three budgets are then submitted to the Secretary of Defense, and in that process of examination the research part will be pulled out and go down to research, items in which you wanted to get technical views, "will this project for solid fuels, or some other type of thing, will this have a chance?" "How much effort should be put on this or that project in this time span?"

The Assistant Secretary will make his views known, such as—"This is not ready;" "This looks pretty good." In supply and logistics the same approach: "This looks good;" "This requirement for a food level, clothing level, or what not, is about right;" "This goes way beyond anything in the basic policy." And the same way in the medical field and in construction.

Now, getting back to this bill, we attempt to pull all of those things together, because we have attempted to live with these programs as we have gone along. Then we present a markup, if you want to call it that, and give reasons as to why some of those things should not be in. That points up many policy issues: should we or shouldn't we go ahead at this time?

Then we attempt in a series of meetings, which this last year ran about 3 weeks, with the Secretary of Defense, the Deputy Secretary, and the Secretaries and chiefs of the services around the table considering all the reasons for and against particular programs to come to certain conclusions.

Senator SYMINGTON. Let me interrupt you there. I am tremendously interested in this testimony you are giving. You mentioned policy. Are there any policies besides military preparedness that influences the decisions? Before you answer that, I want to give you a thought which I think is important. In the hearings, open hearings, I might add of the Senate Military Preparedness Subcommittee, Secretary Wilson stated that he was surprised at what the results did to the Air Force. That is pretty close to verbatim, and Secretary Keyes added to that, "we were very surprised to have Mr. Talbott show us what this did to the Air Force."

That is on the record in May of 1953, I think, during hearings on the 1954 budget. Therefore, it obviously was not in that case a question of strictly military preparedness.

I want to mention that because you have been a very fine witness this morning and I did not want, in any sense, to risk trying to mousetrap you on that question.

Mr. MCNEIL. No, I did not think you did.

Yes, there are other considerations. One is that if the basic policy is right—and that is, are we trying to develop a machine which avoids one of the old weaknesses we used to have of peaks and valleys, and shooting the works this year and drying up next—yes, those things apply. How can we keep this thing running rather smoothly for 3 or 4 years, not knowing whether something could happen today or 5 years from now, instead of shooting the works and drying it up and not having that item, perhaps, in production?

Yes, those things all enter into it.

Senator SYMINGTON. Let me rephrase it for you this way so that I can be clear. In a published editorial recently in this town, it said that the production of B–52 bombers was less than 25 percent of 17 a month, and there are not many people who cannot work out that less than 25 percent of 17 is 4, or under.

Now, just put that over here like that, No. 1, and then say, No. 2, that we all agree that the B–36 and possibly the B–47 also are getting pretty old. I know it was designed in 1940 before we got into the war.

Now, anybody will agree, I think, that as soon as we can replace the B–36's with the B–52's or something even improved, the better it will be. And, therefore, wouldn't you say that economic factors are involved in the production schedule of the B–52's to replace the B–36's?

Mr. MCNEIL. No, I don't——

Senator SYMINGTON. My staff member here says that Secretary Wilson has talked about taking into consideration "what the economy can stand." I am trying to be completely frank in the questioning. Now, you talked in analyzing the bill about the policy aspect of the comptroller.

Mr. MCNEIL. Yes, sir.

Senator SYMINGTON. So, I am asking you from the technical standpoint, isn't the question of what the economy can stand one of the primary matters discussed at the time that the military budget is formulated finally for presentation to the Bureau of the Budget?

Mr. MCNEIL. Yes, but I believe more in relation to what I said a minute ago—what is the smartest thing to do, in trying to avoid peaks and valleys and keep the whole program moving at a reasonably high level for a long time? It so happens that that also fits into the other definition to a degree.

But taking the B–52 that you mentioned a minute ago—and I am probably going a bit beyond my scope here in mentioning it——

Senator SYMINGTON. That is all right, I am sure we would be most interested in any thought you had on it.

Mr. MCNEIL. I do recall that almost 2 years ago, when the idea was presented of establishing a second facility for the B–52, it was known that considerable money would be involved. There was no question of whether there was a ceiling or no ceiling, or whether the economy could or could not stand it. It was thought that it was a good management decision at the time, to get ready to go beyond the one facility then operating.

There was no question of a ceiling. It just seemed like a smart management decision to make under all the circumstances.

I think everyone is glad now that did get underway, because you probably are quite familiar with the fact that they will start to produce their first aircraft at the second source much earlier than would have been the case had we waited until this year, or even last fall.

Senator SYMINGTON. Yes. Now, let me ask you one other technical question along this line because we are getting to the point now where we will have to recess and come back at another time convenient for the committee. But, I would like you to finish your statement.

On this question of impounding the money on the part of the executive branch, as you know, that was done to the tune of a good many hundreds of millions of dollars in 1948, and I thought it was wrong then and so said. Then, in fiscal 1956, it was done with respect to the Marines. The money was impounded and the Marines were not maintained at the strength that the Congress wanted. It was not a question of the Congress failing to furnish the money. The money was appropriated. It was a question of carrying out the congressional position.

I want to ask your comments on the wisdom of that. What is the technical aspect of what happens when the Congress appropriates that money and it isn't spent? Does it go back to the Treasury or how do you handle that from the standpoint of the services?

I think in the case of the Air Force in 1948, it was $800 million, $700 million, or $800 million. I believe it was $800 million in the final compromise.

But, anyway, in the case of the Marines, it was $46 million, as I remember it, or thereabouts.

Mr. MCNEIL. $36 million, I believe.

Senator SYMINGTON. $36 million. Well, whatever it was, I will bet that I am closer with the $46 million than you are with $36 million.

Mr. MCNEIL. You usually are, sir.

Senator SYMINGTON. What happens to that money? Is it just not spent and returned to the Treasury?

Mr. MCNEIL. That is right.

Senator SYMINGTON. What is the technical procedure in that case?

Mr. MCNEIL. Well, in that case I believe the total appropriation was about $600 million or thereabouts.

Senator SYMINGTON. Let us talk about the Marines. Is that it?

Mr. MCNEIL. Yes; just the Marines for pay and allowances.

Senator SYMINGTON. About $600 million?

Mr. MCNEIL. Yes; about $600 million for pay and allowances for the Marine Corps.

When the strength figures were established and the curves of intake and outgo were established, the decision was made in the administration that they would gear the strength in fiscal year 1956 into whatever plan would be presented to the Congress this year, which was about 205,000 men. The Marines worked out the best system they could to relate the intake and outgo to the training load. That took so much money and, therefore, they asked for an apportionment of the portion of the appropriation needed for that resulting strength. The difference just was not touched and still remains there.

Senator SYMINGTON. That would be about 50 percent of whatever that figure was. I think you kept about 50 percent.

Mr. MCNEIL. Something like that, sir.

Senator SYMINGTON. Now, is that money applied to other naval things?

Mr. MCNEIL. No.

Senator SYMINGTON. Or is it just simply not spent?

Mr. McNeil. No; it just stays there because it has not been released for use.

Senator Symington. I see, it just stays there. Is it dead money?

Mr. McNeil. It will be dead on June 30.

Senator Symington. It will be dead on June 30?

Mr. McNeil. Yes.

Senator Symington. At this time, it will not.

Mr. McNeil. It will not be available for any other obligational use.

Senator Symington. I see. It is just not picked up from the Treasury Department to pay bills; is that right?

Mr. McNeil. That is right.

Senator Symington. I see.

Now, what page are we on here? We are almost through. I think we are on page 12 of 13 pages.

Would you like to file the rest for the record at this point?

Mr. McNeil. I just might make one statement on page 13.

Senator Symington. Senator Martin suggested that we go ahead. I was frankly thinking of his time.

Senator Martin. Yes.

Senator Symington. Will you complete your statement, Mr. Secretary?

Mr. McNeil. Yes, sir.

Senator Symington. Fine.

Mr. McNeil. The bill requires the head of each agency to seek, and presumably be guided by, the Assistant Director for Accounting, Bureau of the Budget, a proposed new statutory office, with respect to all Comptroller appointments.

We believe that this advice should be on a voluntary basis and not written into the statute.

Section 3 would require simplification of the allotment system although it is questionable whether such a provision of law is required. The Department of Defense concurs in the objective of this provision, provided it is understood that some military department installations may have more than one operating unit located thereon. Considerable progress has already been made and is continuing rapidly within the Department of Defense toward achievement of this objective.

Senator, I would like to mention that we are trying to make progress toward improvement of this allotment system, which has been archaic and almost unworkable and we want a single allotment to a field commander to get an identifiable job done. Where there is some confusion, however, is that we have pieces of real estate on which there are 3 or 4 separate, different, and distinct kinds of activities.

Senator Symington. Describe the allotment. I think I understand, but just in case I do not, describe the allotment-of-funds concept as briefly as you can. I am only thinking of defining the term.

Mr. McNeil. In our case, the definition of allotment is the advice of approval of an operating budget of a field installation.

Senator Symington. In other words, what you are trying to do is locate the cost of that operation against a specific installation, instead of having an overall setup where it is very hard to segregate the costs of that particular installation? Is that right?

Mr. McNeil. That is right. But if there was only a single-purpose installation with a single fence around it, we want to have it have its own operating budget.

Senator Symington. And your purpose in doing that is to be able to pin on a particular supervisor or commander or the particular place in question as to whether or not he is operating poorly or better or worse?

Mr. McNeil. That is right. But we want to give him a single pot of resources to get an identifiable job done instead of giving him 20, 30, or 40, as has been the case in the past.

Senator Symington. I see.

Mr. McNeil. One of the major requirements for further reductions of unnecessary "pockets of funds" is believed to be the further development of the method of financing cross-servicing between departments upon a reimbursable basis, rather than by separate citation of the ordering agency's funds in connection with individual transactions affecting the cost of work ordered. Working capital funds have provided one solution of this difficulty, although this is not a primary objective of the use of such funds. Further development in this direction of financing services upon a reimbursable basis, under the allotment of the performing activity, awaits changes in Budget-Treasury Regulation No. 1 by the Director of the Bureau of the Budget and the Secretary of the Treasury, with the collaboration of the Comptroller General.

Just to explain that, we want to go one step further, and I think there is sentiment developing to do it, which will improve our whole operation in defense, at least, and that is providing the installation commander with a single pot of resources to operate a substantial identifiable function at that installation, but then if he takes on work from a neighboring installation, that they pay him, and he, without further administrative complications or paperwork, uses those reimbursements to do the work for his neighbor.

Senator Symington. Yes.

Mr. McNeil. It has been one of the things that has bothered the Department of Defense a great deal in recent years.

Senator Symington. Let me make one comment on that. You will never find a good machine-shop foreman or foundry foreman who is really good who is not carrying around in his pocket what his operations were that month or the previous month, as against the month before that. And that is what you are trying to instill in the military; is that right?

Mr. McNeil. Yes, sir, and particularly in our industrial and commercial type operations, and to the extent that we can in the combat side without encumbering them with a lot of paperwork.

Senator Symington. Right.

Mr. McNeil. Now, section 4 of the proposed bill would require establishment of a single account under each present annual appropriation. We think this would simplify integration of accounting for costs and obligations, which is one of the most important objectives of the bill, as well as permit the agencies to settle claims against appropriations. But the provision in section 4 is really one you are dealing with in the other bill which you have considered. I think you have an amendment to the other bill which is acceptable, and after

we go along under that for a while, it is possible that you may wish to consider in 1, 2, or 3 years, a further modification to achieve this second step of the Hoover Commission recommendation.

Senator SYMINGTON. Fine.

Mr. MCNEIL. But I think we have to grow up to it.

Senator SYMINGTON. Senator Martin, have you any questions?

Senator MARTIN. No.

Senator SYMINGTON. I would like to say that we will recess the hearing.

Mr. Secretary, Mr. Brasfield, the Assistant Comptroller General, was kind enough to come.

Is he here? Mr. Brasfield?

Mr. BRASFIELD. Yes.

Senator SYMINGTON. I want to apologize that we took this long, but we have been trying to find out what these bills are all about. And inasmuch as you object, as I understand it, to some of the testimony of the Department of Defense, if you would appear here at 10 o'clock tomorrow, you have at least had an opportunity to get in detail their position on this matter.

We would appreciate it very much.

Mr. BRASFIELD. Thank you, sir.

Senator SYMINGTON. Thank you very much.

We would like to say, Mr. Secretary, that there are some reservations on the part of the Comptroller General's Office with respect to your position, and, therefore, although you have been very good with your time and I am sure probably cannot make it tomorrow, we would appreciate having some representative here from your Department whom you have authorized to speak for your position.

Mr. MCNEIL. Yes, sir.

Senator SYMINGTON. And unless there is any further business, we will recess, then, until tomorrow at 10 o'clock.

Mr. MCNEIL. May I make one suggestion, sir?

Senator SYMINGTON. Yes, indeed.

Mr. MCNEIL. In looking into this whole problem from the Government's side and how we could get some business application in Government, I talked to Dr. Lloyd Morey, who until recently was president of the University of Illinois, and who has done considerable work on the problems of Government, Federal and State, financing. He was in the Pentagon one day recently and made what I thought was the clearest statement of the differences between Government and business financial and accounting requirements, that I had ever heard, both from the congressional viewpoint and the spending agency viewpoint.

I said to him before he left, "That was the best oral statement of the problem that I have heard. Would you mind writing it down for me?"

He did.

Because of his grasp of it, it is possible that this subcommittee might wish to call him as a witness.

Senator SYMINGTON. Would you like to submit it for the record?

Mr. MCNEIL. I would like to submit this for the record if I may, because it is an excellent statement of the problem.[1]

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[1] See p. 227 for Comments on Federal Budgeting and Accounting, by Dr. Lloyd Morey.

Senator SYMINGTON. Fine. We will discuss it with the subcommittee as to whether or not we will call him as a witness. What was his name, again?

Mr. MCNEIL. Dr. Lloyd Morey. He was president of the University of Illinois until about last September. He has since retired. But he has had an interest in this problem for years, and has made as clear a statement as I have seen of the problem.

Senator SYMINGTON. I want to say for the subcommittee in the absence of the regular chairman that I think your testimony this morning has been very constructive. We deeply appreciate the time that you have given to this problem.

Senator MARTIN. I would like to second your statement, Senator.

Senator SYMINGTON. Thank you, Senator. And thank you, Mr. Secretary.

Mr. MCNEIL. Thank you, sir.

(Whereupon, at 12:45 p. m., the subcommittee recessed to reconvene at 10 a. m., Wednesday, March 28, 1956.)

(Prepared statement referred to by Mr. McNeil, on p. 162 and Mr. Lanman, p. 89 follows:)

STATEMENT OF DEPARTMENT OF DEFENSE VIEWS ON S. 3199

A bill to improve governmental budgeting and accounting methods and procedures, and for other purposes.

This bill covers many recommendations in the Hoover Commission Report on Budet and Accounting. It covers important methods and procedures in governmental budgeting and accounting. These are administrative matters which could be handled without legislation, although when enunciated in law may have an important effect on expediting desirable improvements.

Our comments which follow are selective and represent our comments to the Bureau of the Budget on the recommendations in the Hoover Commission reports. These comments have not been approved by the Bureau of the Budget or by the President. Copies of the comprehensive views of the Department of Defense on the Hoover Commission recommendations covered by this legislation are available and we should like, in the interest of time, to place them in the record.

COST BASED BUDGETS, ACCOUNTS, AND REPORTS

Section 1 (b) of the proposed bill would amend section 216 of the Budget and Accounting Act to require the use of cost-based budgets in each department and establishment and their subordinate units for purposes of administration and operation, including fund control. It would also require the use of cost-based budgets in all requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau of the Budget.

We believe the use of cost-based budgets on the basis outlined hereinafter is desirable. Loose application of this concept as advocated by many without knowledge of Government requirements and without Government management experience, could lead to many difficulties.

It should be clearly understood that the use of cost-based budgets should not result in eliminating the requirement for budgeting for expenditures and for obligational authority to be provided to an agency, by appropriation or otherwise, in order to incur obligations in advance of incurring costs. The Department of Defense acquires a great deal of materiel and undertakes construction under long-term contracts far in advance of expenditures or delivery of materiel. While it might be necessary to point this out, there are some who in urging the use of cost-based budgets, have not fully recognized the requirement for operating within appropriation limitations based upon necessary financial authority for obligations to be incurred in advance of costs. Some have also seemed to indicate there is a basic conflict between budgets based on cost and those based on requirements for obligational authority. Actually there should be no conflict. Obligational authority should be requested and provided in terms of

cost, although the cost impact will be in future fiscal periods. Likewise, fund control within an agency must be based upon granting obligational authority to subordinate units.

While we note no feature in the bill which would change the present concepts of providing obligational authority to departments and agencies through appropriations, nor which would revise existing laws with respect to the administrative control of obligations within appropriation authority provided by Congress, we believe the bill might have been worded to indicate more clearly that no such changes are intended. Moreover, we believe it would be helpful if this proposed revision of section 216 were to contain an additional definition of what is meant by the cost basis of budgets. For example, in the case of some programs, cost means "acquisition cost," as in the case of construction of public works, and procurement and production of materiel. In the case of operating and administrative-type programs it means cost of goods and services consumed. However, it should generally be understood that cost of depreciation of facilities procured under appropriations would not be included as an operating cost by activities utilizing such facilities, except as otherwise authorized by law, as in the case of revolving funds where the acquisition of capital assets is financed by such funds and depreciation is permitted to be charged as a cost of the goods or services sold by the activities operated under such funds.

Therefore, the following clarifying amendments of the proposed bill are suggested for consideration:

(1) Change the last sentence under section 216 (a) to add the italicized clause: "Fund allocations within the departments and establishments shall be made on the basis of such cost budgets, *considering the lead time which must be allowed in incurring obligations in advance of incurring costs.*"

(2) Insert in section 216 (c) the wording italicized above after the word "shall be prepared on a cost basis."

(3) Insert in section 216 (d) the italicized words: "The budget required by section 201 of this Act to be transmitted to the Congress shall contain information on program costs and accomplishments as well as *obligations and expenditures.* * * *"

(4) Add section 216 (e) to define the cost basis of budgets as follows:

"(e) The cost basis of budgets, as provided in this section shall mean:

"(1) cost of acquisition in the case of programs for construction of public works or procurement and production of materiel.

"(2) cost of goods and services consumed in the case of operating- and administrative-type programs.

"(3) depreciation of capital assets employed shall be excluded as a cost except in cases specifically authorized by law."

While the proposed bill does not provide for changing the basis of appropriations from obligational authority to accrued expenditures or costs, as recommended by the Hoover Commission, we would like to mention that the Department of Defense is not opposed to that idea and believes it has merit, provided the concept of obligational authority is retained, as for example by the provision of separate contract authority by the Congress, in the manner recommended by the Hoover Commission. In fact, the Assistant Secretary of Defense (Comptroller) made a concrete written proposal on this subject in February 1953 [1] at the request of Senator Byrd. We shall be glad to provide this committee with a copy of the memorandum prepared for Senator Byrd (see p. 92).

BUREAU OF BUDGET REPRESENTATIVES IN EACH AGENCY

Section 1 (c) of the proposed bill would require the Bureau of the Budget to assign personnel to serve in each principal department and agency.

It is questionable whether the Budget and Accounting Act should be amended as proposed to prescribe the designation and assignment of Bureau of the Budget personnel to serve in the principal departments and establishments, under rules and regulations of the President, for the purpose of maintaining continuous review of budget preparation and administration and assist the agency in carrying out its managerial functions and responsibilities. In particular there is no good reason why the law should require the assignment of "no more than two persons for each principal subdivision of a department or establishment," nor that the person so assigned "shall possess the combined skills of the statistician, cost accountant, administrative expert, and program analyst." This entire provision should be omitted from law because it is an administrative matter.

Section 2 (b) would amend section 113 of the Budget and Accounting Act to require each agency to maintain its accounts, on an accrual basis in accordance with standards prescribed by the Comptroller General, to show currently, completely, and clearly the costs, resources, and liabilities of such agency. It is further provided that the accounting system required shall include monetary property accounting records. These accounting requirements naturally should accompany the use of the cost basis of budgeting.

It is doubtless not intended to imply that an agency should maintain its accounts exclusively on an accrual basis, because that would mean the agency would not maintain its accounts on the basis of available appropriations and administrative subdivisions thereof in the manner otherwise directed by the Congress in order to prevent the overobligation of funds and incurring of deficiencies prior to the recording of costs or liabilities in the accounts on the accrual basis. In order to adequately control its funds, each agency must continue to account for obligations incurred in advance of costs. In other words, it must go beyond the accrual basis of accounting as generally practiced in industry. Moreover, it is necessary that each agency shall maintain accounts on a cash basis, as also required by the Congress, in accounting for appropriations on the books of the Treasury, in determining the annual cash surplus or deficit of the Government as a whole, and in order to account for expenditures in relation to amounts budgeted.

There has also been some misunderstanding on the part of some accountants outside the Federal Government of the special accounting needs of the Government and some impatience with the maintenance of the obligation and expenditure bases of accounting. There have been those also who, while recognizing requirements for maintenance of accounts on the basis of obligations and expenditures, have proposed the maintenance of separate accounting systems on the accrual basis, including resources, liabilities, and cost of operations, independent of, or overlapping the accounting for the appropriated funds for which the agency is accountable. In general, it is usually proposed that such separate accounts be reconciled with the appropriated fund accounts so far as obligations and costs are related, but generally there is no consideration given to accounting for resources and liabilities in relation to the specific appropriation and fund subdivisions.

While we agree that the use of the accrual basis of accounting is desirable to the extent of providing the same basis of accounting as required for budgeting on a cost basis (as previously explained), we believe it is important that there be no indication in the bill of either implying possible elimination of the obligation and expenditure basis of accounting for funds or any possible requirement to duplicate such accounting through the use of another system, even with the understanding that there be reconciliations between the two systems. The accrual basis of accounting can be integrated within the basis of fund accounting without the use of any separate system of accounts, nor requirement for a reconciliation between separate cost and obligation accounts. However, such integration is often facilitated by the use of revolving funds, as in the Department of Defense, for financing inventories of consumable materiel and production of goods and services in industrial- and commercial-type activities, for sale to activities financed by appropriated funds.

The proposed bill would provide that the Comptroller General prescribe standards for implementing the provisions for establishing the accrual basis of accounting. We believe this responsibility should be in the executive branch of the Government, in the Director of the Bureau of the Budget. Such standards are inextricable from standards for the cost basis of budgeting. Moreover, a further provision in the bill establishes the position of Assistant Director of the Bureau of the Budget for Accounting to spearhead accounting improvements in the executive branch. This should mean transfer of leadership in the joint accounting program to the Bureau of the Budget.

For these reasons we suggest a complete restatement of the proposed section 113 (c) as follows:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Director of the Bureau of the Budget, cause the accounts of such agency to be so maintained as to show completely and clearly all expendable resources, liabilities, available balances, and costs incurred as well as obligations incurred, under each appropriation and allocation or allotment thereof, with a view to facilitating the preparation of agency reports to include cost data as required by section 216 of the Budget and Accounting Act of 1921. In addition, the ac-

counting system required shall include adequate monetary property accounting records, integrated with the appropriated fund accounts. Wherever desirable to facilitate this integration, the use of revolving funds shall be encouraged to finance procurement and inventories of consumable materiel and production of goods and services for sale on a reimbursable basis to consuming activities financed by appropriated funds."

STAFF OFFICE OF ACCOUNTING

Section 2 (c) of the act would further amend the Budget and Accounting Act by adding section 120 to establish in the Bureau of the Budget under the supervision of the Director thereof a staff Office of Accounting, the head of which shall be the Assistant Director of Accounting.

The Department of Defense sees merit in this recommendation from the standpoint that it would provide a better means of effecting improved integrated budgeting and accounting for the Governmnet as a whole, and this would have an impact upon the Department of Defense as well as other Government agencies. Logically, the functions of budgeting and accounting improvements go hand in hand and both are properly placed within the executive branch of the Government. Therefore, we believe it desirable that the Budget and Accounting Act be amended, consistent with the establishment of this function in the Bureau of the Budget, to provide that all budgeting and accounting principles and standards should be established by the Director of the Bureau of the Budget in the executive branch of the Government rather than by the Comptroller General.

COMPTROLLERS FOR EXECUTIVE AGENCIES

The proposed bill would also amend the Budget and Accounting Act by adding section 121 which would establish requirements for the head of each executive agency to appoint a comptroller to be directly responsible to him. It also provides certain specific functions and duties of the agency comptrollers. Criticism of this section is as follows:

(1) It is not necessary in the case of Department of Defense, because title IV of the National Security Act covers this subject on a much broader basis. (It is important, however, that the present proposed legislation shall not supersede the provisions of title IV, although there may be some question as to whether the proposed law, if passed, would have such effect.)

(2) The Comptroller's functions, as provided by the bill (in the language of the statement of Department of Defense views) "greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, his budget responsibilities are even greater. The Commission's report does not adequately set forth the concept that the Comptroller (or the Assistant Secretary for Financial Management) should provide an independent review and analysis of budgets, as well as reports on performance, and that he should assist the Secretary of the Department as a coordinator in reconciling and balancing with each other, the budget claims for financial support of the several fields of operating interest (each of which has its advocate at top level) with the potential resources, including spending authority granted by the Congress. This does not mean that the Comptroller (or Assistant Secretary for Financial Management) actually controls the operations, or serves as a general manager, or is the superior of his teammates who have responsibility for actual operations in their respective fields. The Department of Defense has been active in the development of this concept in the Federal Government."

(3) The bill requires the head of each agency to seek, and presumably be guided by, the advice of the Assistant Director for Accounting, Bureau of the Budget, a proposed new statutory office, with respect to all comptroller appointments. (It is believed the use of such advice should be on purely a voluntary basis. See Commission recommendations Nos. 10 and 12 and Department of Defense views thereon. This provisions should not be a statutory matter.)

SIMPLIFICATION OF ALLOTMENT SYSTEM FOR ALLOCATING FUNDS

Section 3 would require simplification of the allotment system although it is questionable whether such a provision of law is required. The Department of Defense concurs in the objective of this provision, provided it is understood

that some military department installations may have more than one operating unit located thereon. Considerable progress has already been made and is continuing rapidly within the Department of Defense toward achievement of this objective under guidance of the Assistant Secretary of Defense (Comptroller).

One of the major requirements for further reductions of unnecessary "pockets of funds" is believed to be the further development of the method of financing cross-servicing between departments upon a reimbursable basis, rather than by separate citation of the ordering agency's funds in connection with individual transactions affecting the cost of work ordered. Working capital funds have provided one solution of this difficulty, although this is not a primary objective of the use of such funds. Further development in this direction of financing services upon a reimbursable basis, under the allotment of the performing activity, awaits changes in Budget-Treasury Regulation No. 1, by the Director of the Bureau of the Budget and the Secretary of the Treasury, with the collaboration of the Comptroller General.

SINGLE AGENCY ACCOUNTS

Section 4 of the proposed bill would require establishment of a single account under each present annual appropriation. This would simplify integration of accounting for costs and obligations, which is one of the most important objectives of the bill, as well as permit the agencies to settle claims against appropriations which presently lapse.

This provision is also the subject of S. 3362 upon which we have made a previous statement.

(Attachment to views on S. 3199)

DEPARTMENT OF DEFENSE VIEWS ON IMPLEMENTATION OF REPORT ON BUDGET AND ACCOUNTING

(These comments are those of the Department of Defense and should not be considered as representing the position of the administration. Also they do not necessarily represent the final conclusions of the Department.)

By Commission on Organization of the Executive Branch of the Government, October 1955

RECOMMENDATION NO. 1

(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(*b*) That in order to do this, among other things, it should place in important agencies one or more well-qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

Department of Defense position

Concur in principle.

Comments

The Bureau of the Budget and the Department of Defense already have long-established arrangements whereby well-qualified employees of the Bureau are assigned on a continuing year-round basis to review of agency budgets and other aspects of financial management of all components of the Department of Defense. Much of these reviews are conducted on the site. The constructive results of these arrangements are acknowledged. The staff of the Office of the Secretary of Defense is also engaged in reviews of agency budgets and other aspects of management of the military departments; this should mean a lesser requirement for review by representatives of the Bureau of the Budget.

Parts (*a*) and (*c*) of this recommendation relate to expansion of the Bureau and increase of its resources. It is believed "reorientation" of the Bureau's emphasis on managerial functions and on operating budgets rather than upon formulation of the annual President's budget might result in more effective utilization of present personnel and resources.

Implementation

Primarily by the Bureau of the Budget but Department of Defense will cooperate.

RECOMMENDATION NO. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Department of Defense position

Concur.

Comments

The Department of Defense believes this recommendation to be a constructive one and would cooperate wholeheartedly in its implementation. However, it is addressed to the President and the Bureau of the Budget for application upon a governmentwide basis. If this recommendation were implemented, great care would be required in selecting the types of data to be included and the manner of presentation; there would be great danger that such reports would not serve the intended purpose.

Implementation

Department of Defense will cooperate in the establishment of such a program, if it is established on a governmentwide basis.

RECOMMENDATION NO. 3

See recommendation No. 7.

RECOMMENDATION NO. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Department of Defense position

Concur. See recommendation No. 5 below for comments and implementation.

RECOMMENDATION NO. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Department of Defense position

Concur.

Comments

These two recommendations are a statoutory requirement of section 403 of the National Security Act, as amended. In this respect, the following significant statement of basic principles is contained in the Senate Armed Services Committee report on the National Security Act Amendments of 1949:

"*Basic principles.*—The underlying principles of the performance budget are clear and simple. The performance budget contemplates—

"(*a*) that all costs relating to a logical and identifiable program be included as a project or a budget program for presentation and justification by the Department concerned to the Bureau of the Budget, the President, and the Congress, and for administration and reporting after the appropriation of moneys;

"(*b*) that there be a logical and, so far as practical, uniform grouping of projects or budget programs by the primary functions of the military departments, with this grouping paralleling so far as possible, the organization and management structure;

"(*c*) that there be a segregation between capital and current operating categories."

While much progress has been made by the Department of Defense (with the aid and encouragement of the Appropriation Committees), there are still some

desirable additional improvements required in order to attain the full objectives with respect to both recommendations.

One important special problem which is now being studied, by request of the House Appropriation Committee, concerns the budgeting, appropriation, and accounting for the element of military personnel cost of support-type activities like any other elements (objects) of cost of such activities—that is, such costs should be appropriated for and accounted for as part of the total costs of the respective programs, functions, or activities. It is noted that the Commission's report appears to endorse this objective (see p. 38).

Implementation

Department of Defense will continue development in connection with implementation of title IV of National Security Act, as amended.

RECOMMENDATION NO. 6

See recommendation No. 7.

RECOMMENDATION NO. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

RECOMMENDATION NO. 6

That executive agency budgets be formulated and administered on a cost basis.

RECOMMENDATION NO 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

RECOMMENDATION NO 14

That Government accounts be kept on the accrual basis to show currently, completely and clearly all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

Recommendations 7, 6, 3, and 14 are related with respect to the technical bases of budgeting and accounting for governmental funds for the purposes of congressional, Presidential, and agency control. It is desirable to comment upon them as a group. These four recommendations deal with the financial management process through budget formulation and appropriation, the operating budget and establishing allocations and allotments, and account keeping and financial reporting. The Commission proposals in this area include (1) basing appropriations on estimated accrued expenditures, and (2) in addition providing congressional contract authorizations to cover procurement, construction, etc. Only the first aspect of this proposal is included in the numbered recommendations, leaving the second aspect to be extracted from the supporting text of the Commission report (see p. 23). It is possible to deal with the matter more clearly if both aspects of the Commission proposal, as described on page 23, are recognized as included.

Department of Defense position

Concur in principle but believe that recommendations as stated are not complete. See comments below.

Comments

Bases of budgeting and accounting.—The use of the "accrued expenditure" and "cost bases" of budgeting and accounting would contribute greatly to financial control at all levels. However, it is important to properly define these terms.

The "accrued expenditure" basis should be understood to include charges for progress payments under long-term contracts as well as charges for the cost of goods and services received during the budget year under other contracts and employment arrangements, as recognized by the task force on page 38 of its report. In the case of construction work and procurement of much heavy military equipment, contractual payments are required to be made during the course of

performance of the contracts in order to finance the contractors, and such payments are in advance of the receipt of the goods or completion of construction—such amounts also represent accrued expenditures when properly charged.

The cost basis should be understood to mean:

(*a*) In the case of acquisition of property—cost of resources applied in procurement, production, or construction of such property actually received or completed, and

(*b*) In the case of operating activities—cost of resources consumed in operation and maintenance, excluding depreciation or writeoffs of capital assets employed in operation or maintenance except for industrial- and commercial-type activities where improved management tools would result, as may be appropriate under approved Government policy.

It appears desirable to state the general understanding that application of the accrual basis of accounting should be modified in the Federal Government to exclude depreciation on capital property except for industrial- and commercial-type activities in those instances where improved management tools would result, as may be appropriate under approved Government policy. This is the generally accepted principle of application of the accrual basis of accounting in American State and local governments which utilize it. And we believe it is generally agreed that no useful purpose would be served by estimating or recording monthly or annual depreciation on military buildings and structures, ships, aircraft, combat vehicles, guns, etc.

It is important in financial control to budget and account for the cost of acquisition of all property (including both capital property and consumption-type materiel, or inventories, the cost of which is chargeable to operations when consumed).

Budgeting and accounting for the cost of acquisition of property presents special problems in the Department of Defense because of the immense amount of construction of facilities and procurement and production of materiel, all of which has a long lead time between planning (or programing) and completion or delivery. Control of cost of acquisition demands advance budgeting, authorization of, and accounting for costs of procurement, production, and construction, as well as for expenditures. Currently such budgeting, authorization, and accounting are provided in terms of "obligations" as well as expenditures. As noted above, in recommending institution of the use of the accrual and cost bases of accounting, the Commission's recommendations did not include in the formal budget and reports the obligation basis of advance cost authorizations. That such inclusion was intended appears evident from the report discussion, page 23.

Basis of congressional appropriations.—In the report discussion (p. 23) it is brought out that in recommending change in the basis of congressional appropriations to accrued expenditures, the Commission recommends use of additional contracting authority to cover construction, procurement, and production involving expenditures beyond the budget year. This would assure continuance of the present type of obligation control, although in a different form.

As indicated in the Commission's report, the Assistant Secretary of Defense (Comptroller) of the Department of Defense has previously expressed the opinion that the idea of an annual expenditure budget has merit, and that while there are certain administrative difficulties to be overcome, he does not believe them to be insurmountable. Such difficulties are concerned primarily with the difficulty of estimating the year of delivery of materiel or performance of services under long-term contracts. As a result, it would be impossible to precisely predict or estimate in which fiscal year the contract expenditures might fall. Therefore, it should be understood that unexpended balances of appropriations at the end of any fiscal year for the purpose of meeting contractual payments should be carried over to cover the expenditures to the extent they may subsequently materialize. It should also be understood that when the Congress authorizes obligations to be undertaken without simultaneously authorizing payments by appropriation action (to the extent it is estimated expenditures will not be payable during the same year the obligations are placed), the legal consequence is that the Congress (or any future Congress) is committed to making future appropriations to meet the required payments (including settlement of claims in the case of contracts terminated for the convenience of the Government).

Inasmuch as the proposed contract authority eventually results in payments by the Government, it may well be asked what purpose is served by deferring the making of appropriations in full to cover such payments. Does this provide more congressional control? In a strict theoretical sense, it does not increase

congressional control. However, the proposed division of contract and expenditure authority might well have the result of providing an incentive for improved expenditure budgeting and improved production and performance scheduling, with resultant economies. At least, by substitution of contract authority for advance appropriations, the substantial reduction of the present large annual carryover of appropriation authority, reserved to cover all future payments under contract obligations, should result in better understanding of the Federal budget. Certain other advantages cited in the Commission's report are not believed to exist. The proposed system would not enable the Congress, at the time it considers appropriations for expenditure, to reconsider past actions in granting contract authority any more than it can act today to rescind past appropriations. (The Congress can always rescind appropriation authority to pay existing obligations, if it desires to have contracts canceled or cut back, but it must provide for payment of losses for such contract settlements.) Moreover the proposed system would not operate to remove any incentive which may exist to obligate all available obligational authority before the end of each fiscal year.

That portion of the recommendation concerning making of congressional appropriations in terms of accrued expenditures would not require implementation in order to permit the use of the accrued expenditure and cost bases of budgeting and accounting (in addition to the obligation basis) for the purposes of executive and congressional control.

If this recommendation is accepted by the Congress for application on a governmentwide basis, there should be a period of at least 1 year, for the purpose of study and preparation, before placing the plan into effect.

Financial control through operating budgets.—Although the Commission report uses the terms "executive budget" and "operating budgets," it does not distinguish between them. It should be understood that the executive budget means the President's budget which is submitted to Congress in support of appropriation requests. The annual executive budget must be completed and submitted more than 6 months before the beginning of any fiscal year for consideration by the Appropriations Committees. It is rendered out-of-date by actions of the Congress in appropriating funds, as well as by the lapse of time and changing events.

For these reasons, it is necessary to revise the budget at the beginning of each fiscal year. It is also necessary to greatly amplify and subdivide the budget by individual activities within each agency for purposes of internal management. These revised and extended budgets may be termed "operating budgets." It is assumed, however, that the several bases of budgeting and accounting and the account classifications (except for differences in detail) would be the same for both budgets (the operating budget would be in greater detail).

Operating budgets should be used for purposes of apportionment of funds (i. e., obligation and expenditure authority) by the Director of the Bureau of the Budget, as well as in making fund allocations within the agencies, as recommended by the Commission. It is assumed the Commission did not intend to imply elimination of the apportionment process.

Fund allocations and allotments (see recommendation 13) should be considered simply as approvals and overall limitations of operating budgets at every level by the respective appropriate authorities within each agency.

If, as recommended by the Commission, the Congress were to separately provide contract authority for construction, procurement, and production, it is assumed that apportionments, allocations, and allotments would also be appropriately subdivided between such contract authority and expenditure authority.

Implementation of these recommendations in Department of Defense.—The Department of Defense subscribes to the use of the accrued expenditure and cost basis of budgeting and accounting, in addition to the obligation basis, subject to the explanations set forth above. It has been engaged in extensive development work leading to this end through implementation of title IV of the National Security Act, as amended. In particular, the utilization of working-capital funds results in consumer budgets being stated upon the basis of cost of resources consumed. Moreover, the installation of financial accounting for property is a necessary major step in this direction. The full utilization of the accrued expenditure basis of budgeting and reporting in the congressional budget (as distinguished from management's operating budgets and reports) will depend upon governmentwide development and upon congressional authority.

It is desired to correct what may be an erroneous implication in a quotation from the task force report (pp. 13 and 14), as follows:

"At the present time most budgets are prepared on the basis of estimated obligations to be incurred during the budget year. Obligations are orders placed,

contracts awarded, services received, and similar transactions during a given period requiring future payment of money. Obligations to be incurred during the year do not necessarily have any relation to costs to be incurred during the year.

"The task force states:

"(*a*) Such a budget presentation fails to take into account inventories and other working capital carried over and available at the beginning of the year which may be consumed in the programs of the budget year.

"(*b*) It excludes materials which may become available during the budget year on the basis of prior year obligations, or resources which are estimated to be carried over to the following year. Obviously, such inventories and materials should be considered in establishing the level of funds required to accomplish a program.

"(*c*) The accounting data required in formulating and controlling agency budgets is that which reflects the costs of goods and services to be consumed in carrying out budget programs, in other words, estimated costs incurred. The important thing in budgeting is the work or service to be accomplished and what that work or service will cost. Current Government practice, concerned primarily with incurring obligations, does not contribute to a determination of the costs of work or service to be paid for in the period under review. It fails to relate planned operations to past and projected costs."

Although, in fact, the criticism is addressed to the manner of presentation of the congressional budget, it might be interpreted by many as a criticism of the underlying method of determining requirements for additional obligation authority; namely, that existing resources of inventories, goods on order, and unobligated balances of prior years' appropriation, receive no consideration in determining such requirements for additional obligation authority. Such an interpretation would not be true in the case of the Department of Defense—quite the contrary is true.

Implementation

Department of Defense will continue with installation of the accrued expenditure and cost bases of budgeting and accounting, primarily with respect to implementation of title IV of the National Security Act, as amended, and subject to such governmentwide requirements as may be imposed by law or regulations of the Bureau of the Budget, Treasury Department, and General Accounting Office. It will also develop in connection with implementation of title IV the utilization of these bases of budgeting and accounting, as well as the obligation basis, in internal budgetary administration and other aspects of financial control, including reporting. If requested, the Department of Defense will also support that part of recommendation No. 7 which concerns the institution of a system of congressional appropriations in terms of estimated annual accrued expenditures with separation of contract authority to cover additional obligations for procurement, production, construction, etc., but only if provision is made for continuing the merits of the obligational basis.

RECOMMENDATION NO. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordinarily be enacted for a limited term in order to require periodic congressional review of their usefulness.

RECOMMENDATION NO. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

Based upon the explanation in the Commission's report, these two recommendations are not applicable to the Department of Defense.

RECOMMENDATION NO. 10

That there be established under the Director of the Bureau of the Budget a new staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller

General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(*c*) To set reasonable but definite time schedules for performance and to watch progress.

(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

In addition, it is indicated elsewhere in the Commission's report (p. 49) that the preparation and publication of comprehensive central reports on a governmentwide basis should be a function of the Bureau of the Budget, and that this function would be exercised under the proposed Assistant Director for Accounting.

Department of Defense position

Concur in principle.

Comments

This recommendation is addressed primarily to the Director of the Bureau of the Budget. The Department of Defense sees merit in this recommendation from the standpoint that it would provide a better means of achieving improved, integrated budgeting and accounting for the Government as a whole, and this would have an impact upon the Department of Defense as well as other Government agencies. Logically, the functions of budgeting and accounting improvement go hand in hand, and both are properly placed within the executive branch of the Government.

It is not clear what impact this recommendation is intended to have on the functions of the Comptroller General and General Accounting Office. While cooperation would still be required between Bureau of the Budget and General Accounting Office, it would appear to be desirable that, in accordance with the recommendation, the leadership in the joint accounting improvement program should be passed from the Comptroller General to the Director of the Bureau of the Budget

With respect to paragraph (*d*) above, it would be considered inappropriate and not potentially effective for the Assistant Director for Accounting to undertake to select agency personnel for accounting and auditing positions. Nevertheless, he might advise and assist in such actions to the extent requested, and he could provide assistance through setting standards for selection, training, and retention of capable personnel.

Implementation

None needed by Department of Defense.

RECOMMENDATION NO. 11

That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

(*c*) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

(*d*) To interpret and advise upon significant aspects of the financial reports.

(*e*) To direct the preparation and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

Department of Defense position

Concur subject to qualification that actual recruitment, training, and development of qualified personnel should be conducted in collaboration with the appropriate personnel officials.

Comments

The position of comptroller has been established in each of the military departments, as well as for the Department of Defense, pursuant to title IV of the National Security Act, as amended. The position of comptroller has been established, also, in the major subdivisions of each of the military departments. Further reference is made to comptrollers in the Department of Defense under recommendations Nos. 23 and 24.

The comptroller's functions, as recommended by the Commission, greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, his budget responsibilities are even greater. The Commission's report does not adequately set forth the concept that the comptroller (or the Assistant Secretary for Financial Management) should provide an independent review and analysis of budgets, as well as reports on performance, and that he should assist the Secretary of the Department as a coordinator in reconciling and balancing with each other, the budget claims for financial support by the several fields of operating interest (each of which has its advocate at top level) with the potential resources, including spending authority granted by the Congress. This does not mean that the comptroller (or Assistant Secretary for Financial Management) actually controls the operations, or serves as a general manager, or is the superior of his teammates who have responsibility for actual operations in their respective fields. The Department of Defense has been active in the development of this concept in the Federal Government.

Implementation

Department of Defense will continue to be active in the development of this concept in the Federal Government.

RECOMENDATION NO. 12

That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget.

Department of Defense position

Concur in principle.

Comments

The Department of Defense believes that any guidance and help in the selection and training of comptroller personnel should apply to a much broader area than the field of accounting, which is the recommended primary area of interest of the recommended Assistant Director for Accounting in the Bureau of the Budget. Comments concerning the extent of assistance to the agencies in personnel matters are stated in the comments with respect to recommendation No. 10.

Implementation

Department of Defense will utilize such assistance.

RECOMMENDATION NO. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Department of Defense position

Concur in principle.

Comments

The Department of Defense concurs in this recommendation, provided it is understood that some military department installations may have more than one operating unit located thereon. Guidance toward this objective has already been furnished the military departments by the Assistant Secretary of Defense (comptroller), and considerable progress has been made during the past 2 fiscal years (especially in gaining acceptance of the concept and objective by all concerned, both inside and outside the Department of Defense), although much remains to be accomplished.

One of the major requirements for further reductions of unnecessary "pockets of funds" is believed to be the further development of the method of financing cross servicing between departments upon a reimbursable basis, rather than by separate citation of the ordering agency's funds in connection with individual transactions affecting the cost of work ordered. Working capital funds have provided one solution of this difficulty, although this is not a primary objective of the use of such funds. Further development in this direction of financing services upon a reimbursable basis, under the allotment of the performing activity, awaits changes in Budget-Treasury Regulation No. 1 by the Director of the Bureau of the Budget and the Secretary of the Treasury, with the collaboration of the Comptroller General.

Implementation

The Department of Defense will continue to take actions within its power in simplification of the allotment system.

RECOMMENDATION NO. 14

See recommendation No. 7.

RECOMMENDATION NO. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

Department of Defense position

No objection to review but nonconcur in implication.

Comments

The Department of Defense does not understand this recommendation, especially since the use of working capital funds facilitates and simplifies application of the accrual basis of accounting and cost accounting techniques. It might imply that implementation of the recommended accrual and cost accounting techniques for appropriated funds would make obsolete the further use of working capital funds in the military departments. The Department of Defense would not agree with such an implication, if that is intended.

The report includes a brief statement of advantages and disadvantages of revolving funds (pp. 39 and 40). The statement of advantages is correct (although it is incomplete, especially from the viewpoint of congressional control). Management, as well as accounting advantages are recognized. However, the statement of disadvantages (quoted from the Commission's task force report) is, in our opinion, incorrect.

The following statement is made by the task force with respect to the disadvantages:

"The principal disadvantages of these revolving funds are that they minimize congressional control of agency operations and that their widespread use can result in too many pockets of funds which becomes cumbersome from the standpoint of efficient administration."

The use of revolving funds actually increases congressional control. Congress has full control over the amount of capital in these funds (and, therefore, inventory levels and procurement of stocks represented thereby) through its power to appropriate for such increased capital requirements as may be justified by the agency, and to reduce excess capital requirements by rescission. Both types of action are normal procedure, although as a temporary measure until January 1, 1955, the Congress granted the authority to the Department of Defense, subject to approval of the President, to transfer unexpended balances of appropriations to working capital funds in order to initially finance new installations and additional categories of matériel. It is of interest that stock funds have returned to the Treasury, by action of the Congress in the past 2 years, or are returning during the current fiscal year, more than $1 billion, a large part of which represented liquidation of excessive inventories under improved supply management facilitated by the use of working capital funds.

Moreover, the use of working capital funds permits the Congress to control by separate appropriation action to the using activities the cost of goods and services consumed by them. Without the use of working capital funds, it would only control through appropriation action for new procurement of matériel generally.

The use of working capital funds does not result in any more "pockets of funds" than the minimum which would be required for efficient administration without working capital funds, based upon the standards set forth in recommendation No. 13. In fact, under present regulations of the Director of the Bureau of the Budget, Secretary of the Treasury, and the Comptroller General, the use of working capital funds greatly reduces the number of "pockets of funds" in industrial- and commercial-type activities (in fact, this is stated in the Commission's report as an advantage of working capital funds). Although there are possible alternative ways to simplify fund control and accounting in such cases without the use of working capital funds, the Commission's task force has not covered them in its recommendations. However, such technical corrections would still not enable the Department of Defense to obtain the management advantages inherent in the use of working capital funds.

After issuance of its report on budget and accounting, the Commission released its report on Business Organization of the Department of Defense.. This was a more comprehensive study of management and organization by a separate task force headed by Mr. Charles R. Hook, Sr. By endorsement of that report, the Commission accepted without qualification or reservation the use of working capital funds and recommended their extension wherever suitable. No disadvantages were found. It may be considered, therefore, that the later report serves to correct the budget and accounting report in this respect.

Implementation

The Department of Defense will cooperate in any review which may be undertaken.

RECOMMENDATION NO. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Department of Defense position

Concur.

Comments

The Department of Defense is required by law to meet this objective.

The military departments have more property than other Government agencies, and the conditions under which property must be accounted for are unusually difficult. While varying degrees of progress have been made in each of the three military departments, much remains to be accomplished—especially in integrating property accounting with fund accounting and in extension overseas of financial accounting for property. The use of working capital funds, wherever appropriate, facilitates integration of financial accounting for property and fund accounting.

Implementation

The Department of Defense will continue its efforts to install adequate financial accounting for property in connection with implementation of title IV of the National Security Act, as amended.

RECOMMENDATION NO. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Department of Defense position

Concur.

Comments

This recommendation requires congressional authority to implement. It would greatly facilitate and simplify integrated accounting for obligations, accrued expenditures, and disbursements under annual appropriations. The recommendation is not clearly stated and may be misunderstood. However, the discussion in the report seems to be clear enough as to the objective and general method of accomplishment. Nevertheless, it might have been desirable to clearly indicate, as one of the features of the proposal, that provision should be made for "lapsing" the unobligated balances of annual appropriations and also such portion of unliquidated obligations (subject to necessary adjustment) carried forward at the

beginning of each fiscal year as may be determined subsequently to be in excess of the actual amounts to be payable.

Implementation

The Department of Defense will support the necessary legislation and make the necessary study of its detailed application.

RECOMMENDATION NO. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as claims to the General Accounting Office, but should be settled within the agencies.

Department of Defense position

Concur.

Comments

The Department of Defense hopes that authority will be granted to implement this recommendation.

Implementation

Department of Defense will support the necessary legislation and any appropriate implementing action of the General Accounting Office.

RECOMMENDATION NO. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

Department of Defense position

Concur in principle but do not believe the recommendation goes far enough.

Comments

This recommendation has been partially implemented through adoption of Public Law 365, 84th Congress, approved August 11, 1955. It is believed, however, that the permissive authority for clearance should have been carried further. The Department of Defense sees no reason to continue with a procedure which requires relief of disbursing officers when they have not been found guilty of fraud or gross negligence. Instead, each department or agency head should have the duty of making positive findings of fraud or gross negligence and taking such steps as may be normal to institute criminal action as well as to recover losses. The Comptroller General would always have the privilege of commencing appropriate action if he disagreed with agency findings or found the agency delinquent in taking necessary action.

Implementation

The Department of Defense will support the necessary legislation, preferably for authorizing the procedure outlined in the comments above.

RECOMMENDATION NO. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate (*a*) duplicate accounts within the Treasury Department, and (*b*) duplicate accounting as between the Treasury Department and the various departments and agencies.

Department of Defense position

Concur.

Comments

Simplification of procedures, through elimination of duplicate records, without loss of control is believed to be feasible.

Implementation

None required in Department of Defense. However, if requested, the Department of Defense will cooperate in the study.

RECOMMENDATION NO. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they may meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Department of Defense position

The Department of Defense concurs on the basis of the present departmental assignment of functions, but see comment on recommendation No. 22.

RECOMMENDATION NO. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

Department of Defense position

Concur but do not believe the recommendation should exclude fiscal reports.

Comments

While the Department of Defense concurs, it is believed that the recommendation should be more specific and comprehensive—that is, the function of all central reporting (including fiscal reporting) for the Federal Government, as a whole, should be transferred from the Department of the Treasury to the Bureau of the Budget. Such action would be required in order to implement recommendations No. 2 and No. 10. Such a step would eliminate duplicate reporting channels and central agency reporting responsibilities; it would thus concentrate overall central reporting responsibilities for the Federal Government.

Implementation

If requested, the Department of Defense will support necessary legislation. It will also undertake to implement any action that may be undertaken for the Government as a whole under the direction of the Bureau of the Budget.

RECOMMENDATION NO. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

Comments

The Department of Defense concurs in the need for selecting individuals for comptrollership positions who have broad management and accounting experience and competence. The problem as to whether these positions should be staffed exclusively with civilian personnel is being studied in connection with recommendations 13 and 14 of the Hoover Commission Report on Business Organization of the Department of Defense and will be commented upon in connection with that report.

RECOMMENDATION NO. 24

That the comptrollers in the military departments be responsible only to the Secretary of their respective services, and that concurrent responsibility to a Chief of Staff or equivalent be discontinued.

Department of Defense position

The substance of this recommendation is included in recommendation No. 19 of the Report on Business Organization of the Department of Defense, and comments thereon will be included in the statement to be submitted concerning that report.

RECOMMENDATION NO. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

Department of Defense position

No objection. However, see comment below.

Comments

The Department of Defense has no objection to such a study, if it is desired. However, such a study within the Department of Defense has been made, and it discloses the need and direction for further development and improvement of internal auditing. Vigorous steps have been taken, in different degree in each military department, to institute internal audit programs—a relatively new activity. Any special external study would not be productive it is believed.

Implementation

Will cooperate in such a study if one is undertaken.

Comments on Federal Budgeting and Accounting

By Lloyd Morey, Ex-President, University of Illinois, Champaign-Urbana, Ill.

The budgeting and accounting systems of the Federal Government have been the subject of numerous reviews and reports in the past few years by various commissions, committees, and task forces. This is not the first time such external studies have been made. There was an extensive study made on behalf of the Senate Select Committee on Government Organizations in 1937. In 1939 a brief study was made by a subcommittee of the Committee on Governmental Accounting of the American Institute of Accountants, of which the writer was chairman.[1]

Many of the deficiencies emphasized in the earlier reports have been recognized and steps initiated to correct them. Others have been reemphasized in recent reports, and quite a few of the earlier recommendations have been restated.

The recent reports, however, vary from earlier studies on emphasizing the need for following "business" methods in the Government. This is interpreted as meaning that procedures should be those followed by privately-owned business concerns operated for profit. Admittedly many features of business and accounting are similar in the two areas, and are good in both places. But the conditions and objectives in the two are in many respects different, and call for procedures which recognize these differences. What is needed in the Government is that it be run in a businesslike manner, but not necessarily as private business is run. Accounting can serve management only if it is designed to serve the objectives and requirements of the particular enterprise being managed and not some overall management theory.

As further illustration of the trend of current recommendations, is what may be described as the deemphasis, amounting almost to disregard, for "obligation (or 'encumbrance') control." This finds expression through (*a*) emphasis on the weaknesses of the current system of "obligation" procedures, and (*b*) emphasis on the need for "cost" accounting. In spite of a certain degree of merit on these comments, they tend to overlook the facts that (1) before any obligations can be incurred or expenditures made, funds must be appropriated by the Congress; and (2) the first requisite in the management of such appropriated funds is to keep obligations within the limits so set. It is folly to assume that any manager can operate without attention to fund resources in gaging his spending. It would be both unthinkable and unrealistic to fail to give a manager the tools of accounting control over the limitations under which he must work. These principles were recognized by the Hoover Commission Task Force in its detailed discussion of the Department of Defense (p. 82, task force report on budget and accounting): "The control and accountability for appropriated funds is of course essential in order that the Department may comply with the constitutional requirement that no funds be expended except under congressional authority." Yet the basic recommendations do not give emphasis to this point. To do this it is necessary that there be at some point, full and complete records of (*a*) the authorization for use of funds by spending authorities, and (*b*) details of obligations entered into and the extent to which they are liquidated. Since it is obviously impracticable in so vast an operation as the Federal Government to maintain such details at central points, they should be maintained at each level of spending authority and reported periodically to central points for consolidated financial reporting.

Admittedly the budgetary control system in the Federal Government has been carried to extreme. The allotment system is unnecessarily cumbersome. Ac-

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[1] See Journal of Accountancy, March 1940.

counting for obligations has overshadowed good expenditure and cost accounting. But that does not eliminate the necessity for a proper system of "funding" or "obligation" accounting. Such a system must precede cost accounting, and the latter should stem from rather than supersede it. The two can and should be integrated into a single comprehensive system. This procedure is endorsed by the National Committee on Governmental Accounting, is followed by all current authorities on the subject, and is current in the operations of States and large cities generally.

The reports of the various task forces and committees fail measurably to recognize these basic premises. They tend toward an almost "slavish" acceptance of the methods of private business, and to the assumption that because certain procedures are adequate there, they are equally applicable and satisfactory for all Government operations. Evidence of this lack of understanding of the peculiar needs of Government with respect to budgetary control is found in an article by John W. McEachren on Accounting Reform in Washington:[2] "In industry, no formal accounting entries would be made prior to the establishment of the liability. But in Government, *partly for statutory reasons and partly from custom*, there would be an involved series of accounting actions before the transaction reached the point where commercial accounting normally would begin." (Italics supplied.) This is a signal failure to recognize the true reasons for funding or budgetary accounting in Government and the differences between conditions in Government involving limitations on funds and those in business where with certain exceptions sales or income volume is practically the sole limitation on outgo and is virtually automatic in its effect on increase or decrease in spending.

There is nothing incompatible between budgetary accounting (or "funding" as it is so frequently referred to in Federal accounting) and good cost accounting. The latter follows logically out of the application of (1) an accrual system of expenditure accounting, and (2) the entry of services and materials as costs when supplied and used, rather than when acquired or paid for. Accounting for costs incurred or accrued expenditures, as well as obligations, can be established as an integral part of accounting for the respective appropriations or funds. In the past, the Federal system, being primarily based on accounting only for obligations and disbursements, and absence of inventory accounts, treated all materials acquired as expense of the program at time of acquisition instead of at time of use. These deficiencies have properly been targets of criticism. They can be corrected by (1) an inventory system in which materials acquired are charged temporarily to stock accounts, and are charged to expense or cost accounts when withdrawn for use; and (2) an accrual system, entering as expense a cost when incurred.

It has been demonstrated, and accepted by most of the committees, that working capital funds, as authorized by the National Security Act, are the best medium for handling inventories of consumable materials, as well as for operations of industrial- and commercial-type activities carried on by the Government itself. No appropriations would be needed for procurements of stock funds, unless it became necessary to increase the continuing inventories. Appropriations for operations or for capital purposes would be based on materials used, in accordance with Hoover Commission recommendation: "11. That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures—namely, charges for the cost of goods and services estimated to be received."

The effective application of these procedures depends fundamentally on the development of a classification of accounts for budgetary, accounting and reporting purposes, based on the programs and activities of the agency concerned, as the Commission also recommends. When this is done, appropriations and budgetary control accounts at all stages harmonize with the needs for activity and program costs. The latter stem from the expenditure accounting under the budgetary account system, by applying the accrual and inventory procedures already outlined. No new or separate system of cost accounting is necessary or desirable. "Costs" and "accrued expenditures" are generally synonymous if inventories are separately accounted for.

With respect to budget preparation, the budget should be a plan of what those responsible intend to do to carry out their responsibilities. It should constitute a program of work expressed in financial terms. It should include an estimate of complete costs, in terms of services.

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[2] Journal of Accountancy, September 1955, p. 30.

For operations and maintenance budgets the basic requirement is a functional classification of accounts in terms of organizational responsibilities, activities, and programs, which will be common for purposes of programing, budgeting, accounting, and financial reporting, and which will be as consistent as possible year by year. In this area, when consumable materials are handled through working-capital funds, appropriations can be based on costs incurred for the fiscal period. A high degree of identity here exists between obligations incurred and accrued expenditures.

In capital-type expenditures, long lead-time programs requiring several fiscal periods for completion require special attention. In these instances, budgets should include: (1) complete estimates of entire cost for each new project, broken down into (*a*) obligations to be entered into and (*b*) estimated costs to be incurred, for each fiscal year; and (2) current status of each project previously authorized. Authorization would be sought for making long-time contracts, but fiscal appropriations would be based on estimated costs to be incurred. An integrated accounting control would cover:

(1) Authorizations for long-time contracts.
(2) Appropriations for fiscal period.
(3) Apportionments, allocations, and allotments as required.
(4) Obligations incurred and liquidated.
(5) Expenditures (costs incurred).

Financial reports would reflect operations under all these headings as a unified presentation.

Financial accounting for property should cover capital property as well as inventories of materiel, including but not limited to property financed by working-capital funds.

Comprehensive budgetary control in government should not be looked on as a device which holds down initiative or good management. Instead, when properly placed and used, it is an essential aid to best management, since it gives responsible officers the information necessary for them to properly carry out their responsibilities. Instead of being discarded or deemphasized, it should be refined, simplified to the extent feasible, and kept in the high place of importance it deserves and should hold.

In looking at financial reporting for agencies in the Federal Government, it is quickly apparent that there is still long-delayed development. For example, the Treasury reports on appropriated funds exhibit data on appropriations, receipts, expenditures, i. e., cash disbursements), and unexpended balances. On the other hand, budget reports on these funds exhibit data on appropriations, reimbursements, obligations, and unobligated balances—a type of statement showing changes in funds available for obligation. But nowhere is there a fund balance sheet, by each appropriated fund, which ties together and exhibits the financial condition of the fund in terms of all resources (of which there are others than unexpended balances) and unliquidated obligations, as well as balances available.

And the most unusual fact is that the largest agencies are not even prepared through their accounting systems to provide a fund balance sheet and prove the accuracy of their unrelated reports showing cash and obligation transactions and balances available for expenditure and obligation.

This points up the fact that the Federal Government needs very much to adopt a modern streamlined integrated system of accounting for its appropriated funds, and administrative subdivisions thereof, within the framework of which it also accounts for accrued expenditures (or costs) as well as obligations and cash disbursements. And this means, in addition, that property accounts should be kept in financial terms and integrated with the fund accounts in terms of equating property acquisitions with accrued expenditures from the related appropriations—but the two types of accounts (funds and property) should not be commingled. Each should be a separately balanced group of accounts.

This last comment does not imply the recognition of the ancient and long-outmoded system of two cycles of overlapping accounts—proprietary and budgetary—in achieving these objectives. It is perfectly feasible to integrate all the accounts needed for setting forth the operation and condition of any fund, in a single series of entries covering all transactions and accounts. The result will be a fund balance sheet which recognizes all resources, whether proprietary or budgetary, and shows the status of the fund in terms of availability for further obligation and expenditure.

The separation of current and property investment accounts within a fund is important; it is essential to separate those resources which the "expendable"

and therefore available for use, and those which represent investment in property and therefore already expended.

The following principles recommended by the National Committee on Governmental Accounting, although drawn primarily for municipalities, are equally applicable here:

"6. A complete balancing group of accounts should be established for each fund. This group should include all of the accounts necessary to set forth the financial condition and financial operations of the fund and to reflect compliance with legal provisions.

"7. A clear segregation should be made between the accounts relating to current assets and liabilities and those relating to fixed assets and liabilities. With the exception of working capital, utility or other enterprise, or trust funds, fixed assets should not be carried in the same fund with the current assets but should be set up in a self-balancing group of accounts * * *" (Municipal Accounts Statements, 1951, p. 2).

Federal Accounting Principles

1. In order to carry out a program, goods and services are necessary.
2. Authority to secure goods and services must be provided by—
   (1) Appropriations by the Congress;
   (2) Apportionments by the Budget Bureau;
   (3) Allotments by the department.
3. To secure goods and services it is necessary to enter into obligations, the total of which may not exceed allotments from apportionments made out of appropriations.
4. To make certain that obligations entered into do not exceed total authorizations and accounting control of obligations is necessary.
5. Disposition of goods and services should be in terms of programs, and in terms of amounts used. This requires that—
   (*a*) goods not required for immediate use (or used in manufacturing by the Government for later charge to the program involved) shall be charged to an inventory account or fund;
   (*b*) when materials are withdrawn from stock for use in a program they be credited to the inventory account and charged to the allotment for program involved;
   (*c*) goods used and services rendered be charged to the program in the period thus applied, irrespective as to when paid for.
6. There should be one integrated system of accounts for all purposes; budgets, appropriations, apportionments, allotments, obligations, and program costs.
7. Since program costs are provided by appropriations, apportionments, and allotments, the former should be accounted for subsidiary to the latter accounts and not as a separate group of accounts.
8. Since program costs are provided in part by materials previously acquired and held in inventories, the financing of such inventories and the necessary transfers therefrom can be accomplished more satisfactorily by the use of working capital funds for all consumable material where stocking is done for later use. The same is true where industrial activities are carried on through which goods and services are furnished to programs financed by appropriations.

BUDGETING AND ACCOUNTING

WEDNESDAY, MARCH 28, 1956

United States Senate,
Subcommittee on Reorganization
of the Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:05 a. m. in room 357, Senate Office Building, Washington, D. C., Senator John F. Kennedy, subcommittee chairman, presiding.

Present: Senator Norris Cotton, Republican, New Hampshire.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator Kennedy. The subcommittee will come to order. We will resume this morning our consideration of S. 3199, a bill to improve governmental budgeting and accounting methods and procedures, and for other purposes. At the completion of testimony on S. 3199, the subcommittee will take up S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

Mr. Karney A. Brasfield, Assistant to the Comptroller General of the United States will testify first. You are accompanied by Mr. Robert F. Keller?

Mr. Brasfield. Yes, sir.

Senator Kennedy. Mr. Keller is also an Assistant to the Comptroller General of the United States. Mr. Brasfield, do you have a statement?

Mr. Brasfield. Yes, sir, I do.

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL OF THE UNITED STATES

Mr. Brasfield. In view of the testimony of Mr. W. J. McNeil, Assistant Secretary of Defense, on S. 3199, we believe some further discussion of the accounting systems function of the General Accounting Office, as set forth in section 112 of Public Law 784, 81st Congress, would be helpful. This discussion has particular reference to section 120 (a) of S. 3199 and section 2 (c) of that bill. Mr. Heffelfinger, Fiscal Assistant Secretary of the Treasury, also made some reference to the accounting systems function of the Office in commenting upon section 120 (a) of S. 3199. This matter was covered in our report to the subcommittee on the bill but was omitted from our statement and testimony in the interest of brevity.

Recommendation No. 10 of the first Hoover Commission proposed that the accounting systems function of the Comptroller General would be transferred to the executive branch, although there was a a substantial lack of unanimity on this recommendation among the members of the Commission.

The matter was carefully explored by this committee, then the Senate Committee on Expenditures in the Executive Departments, in the hearings which resulted in the Budget and Accounting Procedures Act of 1950. The proposal was rejected by the committee and the Congress. The paragraph in the committee report dealing with this matter was as follows (S. Rept. 2031, 81st Cong.):

> Under a policy established and steadfastly adhered to by the Congress, the Comptroller General of the United States, as an agent of the Congress, has been vested with authority to prescribe accounting requirements for each of the executive agencies as an essential to legislative control of appropriations and expenditures in the executive branch. The committee feels that this long-established policy of Congress is an essential legislative control over public financial transactions, and must be held inviolate. It has, therefore, rejected this proposal of the Hoover Commission. The bill does fill in certain gaps in the Comptroller General's authority, however, and he will be enabled to exercise all his authority on the same high level of principles, standards, and related requirements, consistent with the assumption by the agencies of their responsibility to develop their own detailed systems and procedures.

Under the Budget and Accounting Procedures Act of 1950 (Public Law 784, 81st Cong.) the Comptroller General, after consulting with the Secretary of the Treasury and Director of the Bureau of the Budget, concerning their accounting, financial reporting and budgetary needs and considering the needs of other executive agencies, is responsible for prescribing the principles, standards and related requirements for accounting to be observed by each executive agency.

The statute further provides that in carrying out this responsibility the Comptroller General shall prescribe requirements designed to permit the executive agencies to carry out their responsibilities under section 113 of the statute which places upon the head of each executive agency the responsibility for establishing and maintaining adequate systems of accounting and internal control. Full disclosure of the results of financial operations of each executive agency and the Government as a whole, as well as the financial information and control necessary to enable the Congress and the President to discharge their respective responsibilities, is also contemplated by the statute.

In addition to these responsibilities, the same statute provides that the General Accounting Office shall cooperate with the executive agencies in the development of their accounting systems and shall approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards and related requirements prescribed by him. He also has the duty to review such systems and report the results of such reviews to the Secretary of the Treasury, the Director of the Bureau of the Budget and the Congress.

This approach to the problem has been followed since the inception of the joint accounting program in 1948. After working with the agencies on a day-to-day basis for a number of years, the Comptroller General issued a set of accounting principles in November 1952. These principles were based upon experience in dealing first-hand with the problems of the agencies in cooperative systems development work.

The Secretary of the Treasury and the Director of the Bureau of the Budget participated in the development of the statement of principles in keeping with the cooperative working relationship envisioned by the Budget and Accounting Procedures Act of 1950.

The second Hoover Commission which had the opportunity to review the progress made since 1948, commented favorably upon the manner in which the accounting systems function of the Comptroller General had been carried out through the joint accounting program in making its recommendation for a staff office of accounting in the Bureau of the Budget. On page 32 of the Budget and Accounting Report, the Commission made the following statement, and I quote:

> The above recommendation does not intend in any way to criticize the activities of the Comptroller General in connection with the joint accounting improvement program.
>
> The accomplishments of this program, which are largely attributable to the General Accounting Office, have been noteworthy and cooperation between the General Accounting Office and the executive agencies must, of course, be continued.

You will recall that Mr. Stewart, when he was before the subcommittee last week, reiterated that statement.

In dealing more specifically with the Comptroller General's responsibility for prescribing principles and standards, and standards is one of the points involved here, the Commission had this to say on page 58, and I quote:

> The Comptroller General's responsibility for prescribing the principles, standards, and related requirements for accounting to be observed by each executive agency has resulted in his issuing a statement of accounting principles and standards for guidance of the agencies.
>
> These principles and standards which were developed in consultation with the executive branch have been set broadly, are sound, and permit flexibility in their application. They have been helpful and in our opinion are in complete harmony with the proper objectives of accounting improvement in the executive branch.

I won't read the rest of the quote as the issue here involved is principles and standards.

The General Accounting Office does not understand that the recommendations of the Hoover Commission for the establishment of a staff office of accounting in the Bureau of the Budget was intended in any way to impinge upon or lessen the effectiveness of the prescribing function carried out by the Comptroller General as an agent of the Congress, or the cooperative systems work of the General Accounting Office with the executive agencies.

This conclusion is in keeping with our discussion with the chairman of the task force which originated the recommendation. As previously testified, we believe it is desirable to strengthen the efforts of the Bureau of the Budget to contribute to accounting improvements throughout the executive branch and, although we question the desirability of providing for a specific office within the Bureau of the Budget by statute, we believe that the establishment of such an office administratively by the Director will be helpful in tying budgeting and accounting together and is in no way incompatible with the continued exercise of its responsibilities by the General Accounting Office as provided in the Budget and Accounting Procedures Act of 1950.

We firmly believe that the authority to prescribe the principles, standards and related requirements for accounting to be observed by the executive agencies should remain with the Comptroller General, and that the General Accounting Office should continue its cooperative systems work with the executive agencies.

Senator KENNEDY. Is there any other comment you care to make?

Mr. BRASFIELD. No, I think that covers it, Mr. Chairman.

Senator KENNEDY. Fine, and thank you very much. We will now receive testimony on S. 3362. The first witness will be Mr. William F. Finan, Assistant Director for Management and Organization of the Bureau of the Budget. Before Mr. Finan takes the stand, I desire to insert in the record a committee print of S. 3362 which incorporates certain amendments agreed to by the agencies affected. Mr. Finan, will you proceed?

[Committee print, March 27, 1956]

[S. 3362, 84th Cong., 2d sess.]

A BILL To simplify accounting, facilitate the payment of obligations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, ~~except as otherwise provided by law,~~ (a) the account *for* each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the ~~activity~~ *agency or subdivision thereof* responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this Act: Provided further, That the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require.*

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement, on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account *as of the close of the fiscal year* shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation ~~as of the close of the fiscal year~~ as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals ~~required~~ *made* pursuant to ~~subsection~~ *subsections* (a) *and* (*b*) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2)

of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically but at least once each fiscal year, by each ~~activity responsible for the liquidation of the obligations chargeable to such accounts~~ *agency concerned*. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess ~~shall~~ *may* be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this Act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this Act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this Act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the ~~activity~~ *agency or subdivision thereof* currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled ~~or will not be undertaken or continued~~; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

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SEC. 7. The following provisions of law are hereby repealed.

(a) The proviso under the heading "Payment of certified claims" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "Payment of certified claims" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

(f) Any provisions (except those contained in appropriation Acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia *or to the appropriations disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.*

SEC. 9. The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which each appropriation or appropriations shall remain available for expenditure is hereby authorized.

STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR MANAGEMENT AND ORGANIZATION, BUREAU OF THE BUDGET; ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING GROUP, BUREAU OF THE BUDGET

Mr. FINAN. Mr. Chairman, I appreciate this opportunity to elaborate upon our testimony of last week in support of S. 3362. The particular point that I would like to offer this morning involves the testimony in which the Department of Defense expressed concern about the possible effect of this bill, or, perhaps, I should be more precise and say one particular feature of the bill, upon the operations of the Department of Defense.

The provision of the bill in question involved the writeoff within 90 days after the close of a fiscal year of the unobligated balance of an appropriation, with further provision that if subsequently in the liquidation of valid claims, the residual balance representing unliquidated obligations proved inadequate to cover the claims in question, the Department should, in effect, dip into its current counterpart appropriations to make up the difference.

The Defense Department was concerned that under escalator clauses of contracts or possibly for other reasons they would be forced into a situation in which they would have to come to Congress for supplemental appropriations in a current year by reason of writeoffs of unobligated balances of prior year appropriations.

Since the Bureau and the representatives of Treasury, General Accounting Office, and Defense, testified last week, we have had further consultations about this matter and are offering an additional amendment to S. 3362 which we all believe will eliminate the possibility of developments of the kind that the Defense Department expressed so much concern about.

I have supplied the reporter with a copy of our proposed amendment and, as a matter of fact, a day or two ago I also provided drafts to the staff of the subcommittee.

(The amendment to S. 3362 proposed by Mr. William F. Finan, follows: On page 2, line 6, change the period to a colon and add the following:

Provided, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this act: *Provided further*, That the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require.

On page 4, line 13, change the word "shall" to "may.")

That amendment would be in the form of a proviso which would—to convert the technical language of the amendment to laymen's language—authorize the head of a department, in the event the remaining balance in an old appropriation account proved insufficient to liquidate valid obligations, restore a portion of the balance that had been written off previously in an amount sufficient to cover the difference and enable him to pay the valid claims.

It would also contain a further proviso that would require the department head who made such an adjustment to report to the Director of the Bureau of the Budget at such time and with such explanatory material and so on as the Budget Director might require.

The purpose of that reporting provision is not to put the Budget Director in a position of reviewing and either approving or disapproving the action of a department head. We believe the authority and responsibility should clearly remain with the department head, but we think that the Budget Bureau should be aware of transactions of this kind should they develop. There is a fair possibility that none would ever develop under this provision, but should it occur we could investigate it and determine what the causes were and see if it were possible to initiate corrective action. We think it is most unlikely as a practical matter that it will ever be necessary for a department head to use the authority that would be given him under this proviso which really amounts to authority to go back and correct an error he made in underestimating his outstanding obligations during this 90-day period after the close of a fiscal year.

Senator KENNEDY. The language on page 2, line 11, "effect adjustments," that would only cover the purchase of goods authorized by the Congress and where there might be an escalator clause. That type of case would be the only type of adjustments authorized by the Congress; is that right?

Mr. FINAN. That is right, sir, and it would only enable him to liquidate obligations incurred during the fiscal year in question and which were otherwise completely valid and proper claims against the Government.

The present situation, Mr. Chairman, as you know, is that these unobligated balances are not now written off. They are carried over at the end of 2 years and show up in the Certified Claims Account in the Treasury Department.

One of the advantages of this bill would enable us to reduce, at least to some extent, these apparent carryovers of unobligated appropriations which would introduce a greater element of precision and integrity into the books of the executive branch.

The authority that is given here is really one of enabling a department head to correct an error which was made—in other words, there may have been an order let, or some other valid obligating action taken, which, for one reason or other, didn't get recorded in the books and

it shows up later and it is a perfectly proper claim against the Government and must be paid.

These escalator clauses can also enter into the picture. The others are straight out and what might be called bookkeeping errors that might enter into the picture. It should be borne in mind that this single, old account that would be provided for here would be one into which would be transferred the balances of all prior years that still contained unliquidated obligations, so that we think there is a very reasonable presumption that for every claim that is in excess of the original obligation, we will have one or more claims that will come in on the low side and balance it out.

So we frankly think that this proviso, which we are perfectly satisfied with and are willing to recommend, be included in the bill, is one that is most unlikely to be used.

On the other hand, if it is used, we want the Budget Director to know about it because we think it may expose the kind of situation that wasn't anticipated in one form or another that should involve some corrective action. The corrective action, of course, couldn't be in the form of a refusal to pay a claim because by that time, shall we say, the water is long since over the dam. You would have to deal with similar situations that might develop in the future.

Senator KENNEDY. Are you finished with your testimony?

Mr. FINAN. I am finished, sir.

Senator COTTON. Could this provision be used to restore previously returned balances from several years back?

Mr. FINAN. I am not sure I understand your question.

Senator COTTON. I am just wondering how much actual protection this word "adjustments" has. I mean, could this amendment be used if a department head desired to do so, to go back and restore the previously returned balance of an appropriation for more than 1, 2, or 3, or for several previous years, and get it back into his control?

Mr. FINAN. Not in the sense that it would give him authority, Senator, to use it for new purposes during the current fiscal year when this issue came up.

An appropriation, as you know, really gives the Department head authority to do two things—one, is to obligate the money, to hire people, let contracts, issue purchase orders, and so forth. The other is authority to spend the money which is to pay his people after he has hired them and pay his contractors and pay his bills and so on.

Now, the authority to obligate, that is, to hire people or to initiate contracts and so on, under an annual appropriation expires on June 30 of each year, and that provision is in no way affected by this bill.

Under the present situation, however, the entire balance of his appropriation which is both unobligated and unspent is carried over on his books for 2 years during which time he can continue to pay claims, but he cannot further obligate any of his unobligated balances. In other words, he can't buy anything with this that was not ordered on or before June 30.

Senator COTTON. This last statement you just made is under this current bill?

Mr. FINAN. I am talking about the current situation.

Senator COTTON. Now?

Mr. FINAN. Yes, sir, now. You can point it up with a simple illustration. Let's say you had an appropriation for $1 million a year.

For one reason or another, you might not find it necessary to use or obligate over $900,000 of it. Under the present situation you would still carry over on your books and 2 years later transfer to the books of the Treasury so much of the $1 million as was still unspent and the portion of it, in this case $100,000, which was unobligated.

Under this bill, 90 days after the close of the fiscal year you would write off the $100,000 of unobligated appropriation and then you would carry on your books so much of the remainder as has yet not been spent but which was obligated. In other words, bills that you hadn't received yet.

Senator COTTON. I truly understand all that, but the point is that the amendment, if I can see its purpose, is that a department head, after that 90 days expired and after the unobligated had been canceled or written off, however you phrased it, if he finds he made an error and obligated a little more than he realized, can recapture it. Is that right, under this amendment?

Mr. FINAN. Only to the extent that if he gets a claim which exceeds the total balance remaining in this appropriation and that claim was a valid claim and at the time he let the contract or issued the purchase order it was in the fiscal year in question and he had at that time available funds to do it. Only then could he make an adjustment in his books tht would recapture enough of what he had written off to enable him to have a sufficient balance to pay the claim.

Senator COTTON. That is exactly what I thought I said. In other words, if he has committed $750,000 of $1 million and apparently the other $250,000 was not committed, was unspent, automatically, under this bill, it would go off his books.

Mr. FINAN. That is correct, sir.

Senator COTTON. But, if he discovered later that actually the purpose for which he committed the $750,000 climbed to $800,000 he can get that extra $50,000, is that correct?

Mr. FINAN. Only in the event that other transfers into this account had also been exhausted and he needed the $50,000 in the account to bring it up to an amount that would enable him to liquidate his claims, because this account will contain transfers from a number of prior years.

Senator COTTON. Well, what control, if any, would Congress have over these restorations? I mean by "restorations" what is covered by this proposal.

Mr. FINAN. In terms of direct control, that is whether the department head would have to come to either a congressional committee or anywhere else in the Congress in order to make this accounting adjustment, the Congress wouldn't get involved in it.

Senator COTTON. What knowledge, if any, would Congress have of these transactions?

Mr. FINAN. The normal audits of the General Accounting Office which, under the provisions of the bill, call for a review of their accounts annually and, of course, the individual transactions come under the normal postaudit operations of the General Accounting Office.

Senator COTTON. Would the Bureau of the Budget have any control over these so-called restorations?

Mr. FINAN. Not control, except that the transactions would be reported to us and it would then put us in the position of investigating

and determining what happened and determining whether any corrective action was taken to prevent future occurrences.

Senator COTTON. By "corrective action," do you mean by legislation?

Mr. FINAN. It could take several forms, Senator Cotton. It could indicate that an agency had a very poor set of books, that within 90 days after the close of a fiscal year they really didn't know what their outstanding obligations were, which would suggest that we ought to move in through the joint accounting program and help the agency get the books in order.

Senator COTTON. Would the Bureau of the Budget report to Congress on actions taken under this proviso, this amendment?

Mr. FINAN. This amendment as written would not require the Bureau of the Budget to make reports under this provision.

Senator COTTON. You say you believe, as a practical matter, any claims that came in that required more money than was anticipated, when the unspent portion was written off the books, would be counterbalanced, undoubtedly, by instances in which not as much money was required to meet claims as was originally anticipated?

Mr. FINAN. That is correct, sir. The trend tends to be that way in most appropriations.

Senator COTTON. I understand that, but how do we know what safeguard we have to know that if that situation is true, that the head of the department will balance off those savings against the funds that he had to recapture?

Mr. FINAN. He would be required to do that under the provisions of this bill.

Senator COTTON. But who checks on him—who polices him?

Mr. FINAN. The General Accounting Office, sir. These accounts are reviewed once a year.

Senator COTTON. And supposing the General Accounting Office finds that he hasn't balanced those. What do they do about it?

Mr. FINAN. They would report that to the Congress, sir.

Senator COTTON. Report it to Congress?

Mr. FINAN. Yes, sir, and as I would interpret the way this bill is written, Senator, action of that kind would be a violation of the provisions of this bill. In other words, a violation of the law.

Senator COTTON. I am not suggesting a great many department heads or any department head might consciously do that, but I have sat on appropriation committees and we all know that departments many times are seeking to keep control of their funds.

I won't take up any more time, Mr. Chairman. It just seems I am a little bit surprised to find that everybody is unanimous about the adoption of this amendment. By curbstone judgment and my first consideration of it when I read it, it just seemed to me that it opened up tremendous loopholes in this bill and nullified much of the effect of the bill. I have to be convinced that it doesn't.

Mr. FINAN. Our only criticism of this amendment, Senator, is we doubt the necessity of it, but we think it is perfectly harmless. The current situation is one in which all of these balances, including the unobligated portions, are carried forward, so the initial effect of this bill is a substantial tightening up of the situation. There is no way, under either the current situation or this bill, which would enable a de-

partment head to obligate under any 1 appropriation in 1 fiscal year more than was initially appropriated by the Congress. That ironclad limit exists both under the situation that exists today and it would also exist under the situation under this bill.

Senator COTTON. But it is your studied judgment, from your knowledge and experience in these matters and which certainly exceeds mine and probably most of the Members of Congress, that these accounts are likely to balance, and that this provision, it seems to me, is unnecessary.

Why do you need it if in almost all instances it is likely that those accounts where less money is required will counterbalance the ones where they have found a mistake and more money is required? Why, then, you don't need this provision, and if you need this provision, why it just presupposes that that situation is not good and that it exists.

Mr. FINAN. We are agreeing with this provision, Senator Cotton, strictly to remove the objections of the Department of Defense to the legislation.

We recognize that the Department of Defense has a number of very difficult and acute problems. The character of the responsibilities of the Defense Department is such that we want to be extremely careful that we don't, in an effort to improve bookkeeping, interfere in any way with the national defense, even to the most minor degree. They are concerned, they are worried, that in the absence of this, they could get into trouble on current appropriations with possible repercussions on effective programing and in terms of their relationships with the Appropriations Committee and a number of other matters.

Solely for those reasons and because we doubt that a situation is likely to arise under which this proviso will be used, we are perfectly agreeable to seeing it included in the bill.

Senator COTTON. Have your legal people passed on it? Are they sure it is constitutional and doesn't open the way for expenditures without appropriations by Congress?

Mr. FINAN. Yes, sir; I understood you were concerned about this provision of the bill in that respect and I discussed with our legal staff last night these issues and they tell me they are perfectly satisfied that there is no problem of that kind involved in this provision.

Senator KENNEDY. Do you think it would be of any assistance in meeting the problem that Senator Cotton suggested if we had the report made to the General Accounting Office or the Appropriations Committee of Congress so that we would all be reassured?

Mr. FINAN. We wouldn't have any objection to requiring reports under this proviso either to the General Accounting Office or the Appropriations Committee, Mr. Chairman.

As I say, we think you will get few, if any, such reports.

Senator KENNEDY. Mr. Bordner, do you feel that would be a satisfactory amendment to the amendment suggested on page 2, to require that these reports be filed with the GAO and perhaps give the Congress a little more information about it?

Mr. BORDNER. Yes, Mr. Chairman, I think that is perfectly in order.

(The amendment proposed for section 1, page 2 of the committee print is as follows:)

: *Provided*, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liqui-

date obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this Act: *Provided further*, That the head of the agency concerned shall make a report with respect to each such restoration to the chairman of the Committees on Appropriation of the Senate and the House of Representatives, to the Comptroller General of the United States, and to the Director of the Bureau of the Budget.

Senator KENNEDY. This amendment on page 8 would permit the Appropriations Committee to excuse any department or agency from the provisions of this act, as I understand it.

Mr. FINAN. That is correct, sir.

Senator KENNEDY. We will excuse you just for a minute, Mr. Finan. We would like to have Mr. Bordner from the Defense Department take the witness chair for a few minutes.

STATEMENT OF HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING POLICY, DEPARTMENT OF DEFENSE

Senator COTTON. You heard the questions that I asked of Mr. Finan about this provision and the doubts that I had in connection with it and I thought due to the fact that none of us want to hamper the Department of Defense, certainly, you might have some comment on this and you might reassure us.

Mr. BORDNER. I don't know that I can add much to the comments of Mr. Finan. I think he made the point that first you could not obligate the old account for any new obligations. It could only be used to adjust and liquidate or remove obligations, legitimately incurred prior to the end of the respective fiscal year on which the appropriation expired.

I think, second, he made the point that you could not restore, by this proposed amendment, any sums except first as required to meet payments under the obligations, legitimately incurred, and in no case could you restore more than the original amount which had lapsed, reverted to the Treasury, so to speak, and I think, third, he made the point, in comparison with the present situation, where those sums are carried under the certified claims account, even beyond the 2-year period. In other words, there would be returned to the Treasury, by this amendment, amounts in advance of what is now the current situation.

He has indicated also that the General Accounting Office would naturally audit the appropriation account.

I think I might add just one point. I believe it would be normal procedure for the Treasury Department to check on the amounts that might be requested for restoration and refuse to restore any amount which could not be legitimately restored based on the original amounts which had lapsed.

Senator COTTON. Where do you find the authority for that in the proviso?

Mr. BORDNER. I find it only by implication.

Senator COTTON. Could you go back several years on a transaction and recapture the appropriation?

Mr. BORDNER. Yes; if justified, but again, Mr. Finan made the point that the bill in its other provisions requires the head of the agency at all times to measure the adequacy of the balance, and if you have enough funds in the appropriation, because certain obligations have

been liquidated at less than the amounts originally estimated, you would have those funds available and they would have to be used first before you even made a request for restoration.

There is also in the bill, I believe, a proviso that as the agency establishes the fact that there are excessive funds available in the prior years' appropriations as a result of liquidation of obligations at less than the amounts asked for, those excesses would also have to be canceled or lapsed.

Senator COTTON. Is it your opinion with respect to the Defense Department, you agree with Mr. Finan as a man of practical experience, that the overage on some would balance the inadequacy of others so that the two would balance?

Mr. BORDNER. Not entirely. That would be true in some appropriations perhaps, but not in others.

Our problem, Senator, I believe is largely in those annual appropriations where we have a mixture of procurement. While we use no-year appropriations generally for procurement, we have certain cases, particularly the Navy, as has been testified to, where there is a certain amount of procurement under the annual appropriations and it is largely in connection with those appropriations where the contracts contain escalator clauses and so forth. And I think in those appropriations, it would not be at all unusual to use this privilege.

Senator COTTON. So you feel that for the safety of our program of national defense you must have something in there to enable the head of your Department, without seeking any more authority from Congress, without anything from Congress, but simply notifying and reporting to it afterward and to the Bureau of the Budget, be able to recapture those parts of lapsed appropriations that were found to be necessary to complete the transactions for which they were originally appropriated.

Mr. BORDNER. Yes, Senator, but also in recognition of the fact that the authority had once been obtained from the Congress to cover that. It isn't the same as escaping, going to Congress for the authority.

Senator COTTON. Assuming that this bill should become law, the whole purpose of this bill, as I understand it, is to cause those appropriations unused, unobligated, portions of those appropriations to go off the books and lapse.

Assuming this bill is on the statute books, it would be a recapturing of funds previously appropriated that had lapsed, is that right?

Mr. BORDNER. Yes, sir.

Senator KENNEDY. Mr. Bordner, is this bill satisfactory to the Defense Department?

Mr. BORDNER. It is.

Senator KENNEDY. Thank you very much.

The hearing on S. 3362 is now ended. The hearing on S. 3199 is recessed subject to the call of the Chair. The subcommittee will go into executive session and I would like the officials from the General Accounting Office to wait, please. I want to thank the rest of you for coming here today.

(Whereupon, at 10:50 a. m., the subcommittee went into executive session.)

At the conclusion of the hearings, Chairman Kennedy of the Subcommittee on Reorganization requested the representatives of the Bureau of the Budget, the Department of the Treasury, and the Office of the Comptroller General,

in cooperation with the staff of the subcommittee to redraft a new bill to include the suggested amendments upon which there was general agreement. The new bill, S. 3897, was introduced in the Senate on May 21, 1956.

(Subsequently, the following communications relating to S. 3199 were received by the subcommittee:)

PRICE WATERHOUSE & CO.,
New York, N. Y., March 27, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization, Senate Committee on Government Operations, Senate Office Building, Washington, D. C.

DEAR SENATOR KENNEDY: In connection with the consideration of Senate bill 3199 by your subcommittee, I am sending you herewith 10 copies of a letter dated November 15 from the Professional Council on Federal Financial Administration to the Honorable William L. Dawson, chairman, Committee on Government Operations of the House of Representatives. This letter sets forth in some detail the views of the council on the Hoover Commission's report to the Congress on budget and accounting. Inasmuch as Senate bill 3199 is designed to implement many of the recommendations of the Hoover Commission report, the views of the council are pertinent to the provisions of the bill.

The Professional Council on Federal Financial Administration, of which I am chairman, was organized approximately 5 years ago in order to provide an independent group of persons who are qualified by education and experienced in governmental accounting and financial matters for consultation to the executive and legislative branches of the Government. The council has kept closely in touch with the progress of the joint committee for improvement in accounting in the Federal Government carried out in recent years through cooperative effort of the General Accounting Office, the Bureau of the Budget and the Treasury Department. The council has made an extended study of the Hoover Commission Report on Budget and Accounting as well as the related task force report. Accordingly I believe that the comments in the accompanying letter merit your consideration and incorporation in the record of the hearings of the Subcommittee on Reorganization.

Sincerely yours,

PAUL GRADY.

THE PROFESSIONAL COUNCIL ON FEDERAL FINANCIAL ADMINISTRATION,
November 15, 1955.

Hon. WLLIAM L. DAWSON,
Chairman, Committee on Government Operations, House of Representatives.

DEAR MR. CHAIRMAN: The Professional Council on Federal Financial Administration is submitting herein its views on the recommendations of the Hoover Commission on budget and accounting for the consideration of the Committee on Government Operations of the House of Representatives.

The Professional Council on Federal Financial Administration was organized approximately 5 years ago in order to have an independent group of persons, who are qualified by education and experience in governmental accounting and financial matters, available for consultation to the Government and other public organizations. The council has kept closely in touch with the progress in the joint program for improvement in accounting in the Federal Government carried out in recent years through cooperative effort of the General Accounting Office, the Bureau of the Budget, and the Treasury Department. As a basis for this letter, the council has studied the Hoover Commission's report to the Congress on budget and accounting and the related task force report and has held extensive meetings with the chairman of the task force and with representatives of the General Accounting Office, Bureau of the Budget, and the Treasury Department.

The council enthusiastically endorses the underlying concepts that are embodied in the Hoover Commission recommendations; namely, that budgeting and accounting for operating programs should be primarily in terms of the cost of resources consumed, and that budgeting and accounting of capital, or long lead time, programs should be primarily in terms of accrued expenditures. We have also studied the letter dated October 26, 1955, addressed to you by the Comptroller General of the United States and we are in agreement with many of his interpretative comments relating to particular recommendations or groups of recommendations. We shall deal with the 25 specific recommendations of the Hoover

Commission and refer to and endorse some of the Comptroller General's comments without repetition in order to shorten and simplify this letter.

RECOMMENDATIONS RELATING TO THE BUREAU OF THE BUDGET

(Part II Commission Report)

Recommendation No. 1

(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(*b*) That in order to do this, among other things, it should place in important agencies one or more well qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

Recommendation No. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Recommendation No. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

We endorse these three recommendations. In respect of the first recommendation we would emphasize the point that funds expended to increase the effectiveness of the Bureau of the Budget should be returned manyfold through disclosure of unnecessary and wasteful activities in various Government departments and agencies. In regard to the second and third recommendations we agree with the interpretative comments of the Comptroller General.

RECOMMENDATIONS RELATING TO THE PERFORMANCE (OR PROGRAM) BUDGET

(Part III Commission report)

Recommendation No. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Recommendation No. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Recommendation No. 6

That executive agency budgets be formulated and administered on a cost basis.

We endorse recommendations No. 4, 5, and 6 as well as the related comments of the Comptroller General.

RECOMMENDATIONS RELATING TO RESTORATION OF CONGRESSIONAL CONTROL OF THE PURSE

(Part IV Commission Report)

Recommendation No. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely charges for the cost of goods and services estimated to be received.

Recommendation No. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordi-

narily be enacted for a limited term in order to require periodic congressional review of their usefulness.

Recommendation No. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

We endorse recommendations No. 7, 8, and 9. We also agree with the comments of the Comptroller General relating to recommendation No. 7. In reference to this recommendation, the council points out that the report does not explain the means by which budgets and appropriations made on an accrued expenditures basis are to be tied in with other accounting and budgeting controls which, in accordance with recommendations 3, 6, and 14, are to be on a cost basis. We suggest that the appropriate agency take steps to clarify this matter.

RECOMMENDATIONS RELATING TO ORGANIZATION FOR ACCOUNTING IN THE EXECUTIVE BRANCH

(Part V Commission report)

Recommendation No. 10

That there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(*c*) To set reasonable but definite time schedules for performance and to watch progress.

(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

Recommendation No. 11

That as an aid to financial management the position of Comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

(*c*) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

(*d*) To interpret and advise upon significant aspects of the financial reports.

(*e*) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

Recommendation No. 12

That the selection of agency Comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget.

We endorse recommendations Nos. 10, 11, and 12 and agree with the related comments of the Comptroller General. Our comments on recommendation No. 1 are fully applicable to recommendation No. 10.

RECOMMENDATIONS RELATING TO ACCOUNTING PROCEDURES IN EXECUTIVE AGENCIES

(Part VI Commission report)

Recommendation No. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Recommendation No. 14

That Government accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities, and the cost of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

Recommendation No. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

Recommendation No. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Recommendation No. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Recommendation No. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies.

Recommendation No. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

* * * * * * *

We endorse recommendations No. 13 to 19, inclusive. We agree with the comments of the Comptroller General relating to recommendations No. 13 to 18, inclusive.

In further reference to recommendation No. 15, we are assured by the chairman of the task force that there is no implied criticism of working capital funds now in existence, nor a presumption that the working capital device will become outmoded.

RECOMMENDATIONS RELATING TO CENTRAL ACCOUNTING AND REPORTING

(Part VII Commission report)

Recommendation No. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate: (*a*) Duplicate accounts within the Treasury Department; and (*b*) Duplicate accounting as between the Treasury Department and the various departments and agencies.

Recommendation No. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Recommendation No. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing com-

prehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

We endorse recommendations No. 20, 21, and 22. The Comptroller General's comments regarding these recommendations deal mainly with the improvements already made or in prospect in the area of central accounting and reporting as a result of the cooperative program for improvement in accounting. Our commendations for the improvement in this and other areas will be expressed in a later part of this letter.

RECOMMENDATIONS RELATING TO THE DEPARTMENT OF DEFENSE

(Part VIII Commission report)

Recommendation No. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

Recommendation No. 24

That the comptrollers in the military departments be responsible only to the Secretary of their respective services, and that concurrent responsibility to a Chief of Staff or equivalent be discontinued.

We endorse the objective in recommendation No. 23 of assuring competence of the individuals on whom responsibility for leadership in financial management is placed. However, we agree with the task force that competent personnel can be found in the military as well as in civilian ranks. Accordingly, if the military departments would recognize the need for career specialists and make appropriate changes in their rotation and promotion policies, we would agree with the task force recommendation that comptrollers could be either mililtary or civilian or both.

Nine of the members of this council endorse recommendation No. 24. Dr. Anthony dissents. Although he recognizes that concurrent responsibility is usually unsatisfactory in a business organization, he believes that there are sound management reasons for continuing this concurrent responsibility in one or more of the military departments.

RECOMMENDATIONS RELATING TO AUDITING AND THE GENERAL ACCOUNTING OFFICE

(Part IX Commission Report)

Recommendation No. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

We endorse recommendation No. 25.

Many of the recommendations are closely interrelated and it is our view that the first 18 should be dealt with as a whole rather than separately. If all 25 recommendations were adopted and properly implemented the executive departments and the Congress would have adequate data as a basis for decisions and for judging performance of the departments and agencies. Such information would include for each major program (1) past costs in relation to accomplishments, (2) resources available in terms of inventories and funds carried over, (3) estimated costs of all resources to be consumed in ensuing fiscal year, (4) estimated accrued expenditures needed to be authorized for ensuing fiscal year, and (5) new contracting authority needed for periods beyond such fiscal year. We cannot overemphasize the need for placing the Government's accounting and budgeting on a synchronized cost basis, with costs determined in accordance with sound accrual accounting principles. The cost basis of accounting and budgeting as used in the Hoover Commission report means the reasonable ascertainment of resources used for major programs and by major centers of organizational responsibility. It does not, in our opinion, contemplate intricate and detailed unit of production cost systems of the type associated with manufacturing operations. We make this distinction because it appears that a misunderstanding on this point may have caused dissents by two of the members of the Commission.

In concluding this letter, we wish to express our commendation for the substantial improvement in accounting in the Federal Government which has been accomplished in recent years through the joint program of the General Accounting

Office, the Bureau of the Budget, and the Treasury Department. The progress made is a tribute in part to the technical competence of the individuals assigned to the joint program. To an even greater degree, it is attributable to the fine spirit of cooperation which has been developed between these agencies which share the responsibility for leadership in accounting and budgeting matters and to their understanding of the necessity for assisting each executive agency in the development of accounting and budgetary systems which will be most useful in meeting its financial and general management responsibilities. It is our view that the adoption of the Hoover Commission recommendations on budget and accounting will greatly forward the program for improvement and will in no way impede the cooperative working relationships.

Respectfully submitted.

Herbert S. Taggart, Robert N. Anthony, American Accounting Association; Raymond G. Lochiel, G. A. Mills, Controller's Institute of America; Earle H. Cunningham, Charles J. Ghesquiere, Institute of Internal Auditors; Joseph M. Lowery, Joseph M. Cunningham, Municipal Finance Officers' Association; Weldon Powell, Paul Grady, Chairman, American Institute of Accountants.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D. C., March 28, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
Senate Office Building, Washington, D. C.

DEAR SENATOR KENNEDY: The Chamber of Commerce of the United States favors enactment of principles and objectives of S. 3199.

That measure would put into effect many proposals of the Commission on Organization of the Executive Branch of the Government for improving the budget and accounting procedures of the Government. Performance budgeting and cost-based budgets have long been recognized as a highly desirable improvement in the Government's budgetary process. There should be more effective control by the Bureau of the Budget over preparation and administration within the Government agencies. The Government has long needed an improved uniform accounting system on an accrual basis.

Legislation such as S. 3199, directed at these objectives, would lead to much better fiscal administration by the Government, and should lay the groundwork for sizable savings in annual operating costs through more effective control over the spending activities of the various Government agencies.

The Bureau of the Budget is to be commended for its recent action giving more prominence to its accounting group. Legislation such as is contemplated would be of important help to that office by arming the Assistant Director in charge of this function with adequate authority to do his job, as well as by signifying that the program has congressional backing.

We recognize that discretionary authority already exists under the Budget and Accounting Procedures Act of 1950 to put into effect many of these proposals. By passing that act, Congress indicated that action should be taken along these general lines, but relatively little has been done. We think it is time for mandatory legislation.

The Government's cash basis system of accounting and budgeting is extremely antiquated. Accrual accounting has been successfully used for many years by business concerns and is universally accepted as the standard method. Adoption of the accrual system would make it possible to do away with the system of appropriation carryovers and restore to Congress full control over the Government's fiscal operations—a control which has been lost in large measure in recent years as the carryover system has come into more extensive operation.

It is recognized that it would take time to put the accrual accounting recommendations into effect. One problem here will be to adapt accrual accounting to the requirements of government. The ultimate result, however, will be to the advantage of the Government and its citizens.

Performance budgeting, which this program would make possible, means primarily a fiscal program in terms of jobs to be done rather than in terms of the number of people to be hired, so many reams of paper to be purchased, or tons of food to be bought. It makes it possible to relate the things Government

does to their overall cost, and thus an appraisal of their worthwhileness in terms of dollars.

The establishment of a comptroller setup for each department would appear to be a step forward. Many departments now have officers, and in some cases designated "comptrollers" and in others other designations. Development along this line, however, has not been uniform, and establishment of a Staff Office of Accounting to direct the Government's accounting activities and to operate a new system of accounts is a commendable procedure.

In view of these important considerations, we hope that your committee will report favorably a bill to put into effect these important proposals for improving the Government's fiscal administration.

I would appreciate it if you would make this letter a part of the record of your current hearings.

Cordially yours,

CLARENCE R. MILES.

AMERICAN INSTITUTE OF ACCOUNTANTS,
New York, N. Y., May 3, 1956.

Hon. JOHN L. MCCLELLAN,
Chairman, Committee on Government Operations,
United States Senate, Washington, D. C.

DEAR SENATOR MCCLELLAN: The executive committee of the American Institute of Accountants has studied the recommendations of the Hoover Commission on Budget and Accounting as well as the related task-force report. The American Institute of Accountants is the national organization of certified public accountants. We believe we are qualified to appraise these recommendations and have a responsibility to make our views known to the Committee on Government Operations of the Senate.

It is general knowledge that budgeting and accounting in the Federal Government has not reached the same degree of effectiveness as an instrument providing essential information needed for sound management as has been attained in the field of business. The need for adequate and dependable information is even greater in Government because of the staggering aggregate of Government expenditures and because of the dependence of the top executive officials and of the Congress on such data as a basis for their decisions.

It is important that budgeting and accounting go hand in hand. Both budgets and accounts should reflect actual performance in terms of incurred cost and not in terms of cash paid out. To insure control in the Congress of budgetary items with long lead time, annual review and ratification of such items by the Congress should be required.

We believe the Hoover Commission recommendations accomplish these objectives. If fully adopted and properly implemented, they would provide the type of budgetary and accounting controls needed for good management in Government. Many of the recommendations, particularly the first 18, constitute an interrelated pattern which must be adopted as a whole in order to produce an effective system. We fully endorse the Hoover Commission recommendations on budget and accounting.

If we can be of assistance to your committee in its consideration of this part of the Hoover Commission report and of S. 3199, please feel at liberty to call upon us.

Respectfully submitted.

JOHN H. ZEBLEY, Jr., *President.*

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BUDGETING AND ACCOUNTING

HEARINGS

BEFORE THE

SUBCOMMITTEE ON REORGANIZATION

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

S. 3897

A BILL TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES

JUNE 4, 5, AND 6, 1956

PART 2

Printed for the use of the Committee on Government Operations

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BUDGETING AND ACCOUNTING

MONDAY, JUNE 4, 1956

United States Senate,
Subcommittee on Reorganization of the
Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:05 a. m., in room 457 Senate Office Building, Senator John F. Kennedy (chairman of the subcommittee) presiding.

Present: Senators John F. Kennedy, Democrat, Massachusetts; Norris Cotton, Republican, New Hampshire; and Thomas E. Martin, Republican, Iowa.

Also present: Walter L. Reynolds, chief clerk; Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; and Mrs. Kathryn M. Keeney, clerical assistant.

Senator Kennedy. The subcommittee will come to order.

We will begin hearings this morning upon S. 3897, a bill to revise the Federal Government's budgeting, accounting, and appropriation procedures.

Its basic objective is to improve financial management within the executive agencies and provide more control by the Congress over expenditures by the executive branch.

This bill is cosponsored by my distinguished colleague, Senator Payne of Maine, the author of a comparable bill, S. 3199, upon which hearings were held by the Subcommittee on Reorganization, March 20–24, and by 30 other Members of the Senate.

S. 3897 was drafted by the General Accounting Office in collaboration with the Department of the Treasury and the Bureau of the Budget and members of the Senate Government Operations Committee staff to incorporate recommendations submitted to the Subcommittee on Reorganization at the earlier hearings upon S. 3199.

S. 3897 directly implements the Second Hoover Commission's recommendations relating to budgeting and accounting.

In effect, it would convert the entire governmental financial structure to an annual accrued-expenditures basis as compared to the present-obligations system.

This would be accomplished by requiring that agency budgets be determined on a cost basis, that agency accounts be maintained on an accrual basis, and that appropriations be made on an annual accrued-expenditures basis.

By converting appropriations to an annual expenditures basis, the Congress would appropriate for each fiscal year upon estimates of expenditures actually to be made or accrued during that year. This would substantially reduce the carryovers of unexpended balances

of appropriations which now run into the billions of dollars each year, and over which the Congress has little or no control.

The agencies which have drafted S. 3897 advise that it does not impair the present authority of the executive departments to contract or make commitments for expenditures in future fiscal years provided they meet the existing requirement that advanced approval be obtained from the Appropritions Committees of the Congress.

However, agencies would be required to justify in their annual budgets that portion of any long-term contract which accrues in a fiscal year, thereby providing the Congress with an annual detailed review of the financial operations of each agency.

The stating of appropriations on an expenditures basis is a revolutionary change in the Government's financial operations which is proposed by the Subcommittee on Reorganization only after the most careful deliberation and consideration.

Moreover, it is evident that a change of this significance cannot be made instantaneously throughout the Government but that its application will require considerable time, possibly agency by agency over a number of years.

This bill, as noted, has the endorsement of the major financial departments of the Government. It also has the endorsement of many of the Nation's foremost authorities on budgeting and accounting. I am hopeful that upon the completion of these hearings it can be reported favorably to the Senate.

The first witness this morning will be the distinguished Senator from Maine, Senator Frederick G. Payne. Senator Payne, formerly Commissioner of Finance, Director of the Budget, and Governor of Maine, is an outstanding authority on governmental finance.

Senator, before you proceed, I would like to insert in the record a copy of S. 3897, together with staff memorandum No. 84–2–9, which relates to the bill.

(S. 3897 and staff memorandum No. 84–2–9 are as follows:)

[S. 3897, 84th Cong., 2d sess.]

A BILL To improve governmental budgeting and accounting methods and procedures, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SEC. 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting "(a)" after the words "SEC. 201."; by changing subsection (a) to subparagraph (1); by adding after subparagraph (1) a new subparagraph "(2) at such times as may be practicable, information on program costs and accomplishments"; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively; and by adding the following new subsections:

"(b) The amounts of proposed appropriations referred to in sections 201 (a) and 203 of this Act shall, to the maximum extent deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis.

"'Annual accrued expenditures' shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

"This subsection shall not apply to appropriations made specifically for the payment of claims certified by the Comptroller General and of judgments; appropriations for the refund of Federal taxes and of other moneys erroneously

received and covered into the Treasury of the United States; appropriations made by private relief Acts of Congress; appropriations for the payment of interest on trust funds; revolving funds or appropriations thereto; appropriations for the payment to former members of the Armed Forces, their dependents and beneficiaries, of any benefits to which they are entitled by reason of military service; appropriations for the payment of pensions and annuities; appropriations for the payment of any obligation of the United States for which liability is fixed by treaty; and other appropriations or funds analogous to the foregoing.

"(c) The conversion to the use of annual accrued expenditures for stating proposed appropriations in accordance with section 201 (b) of this Act shall be accomplished in such manner and at such times as may be determined by the President.

"(d) As of the end of each fiscal year, the excess of any appropriation or fund made on an annual accrued expenditure basis over the accrued expenditures under such appropriation or fund shall lapse, unless hereafter provided otherwise in an appropriation Act of other law. Any remaining balances of each such appropriation or fund shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year and shall constitute a single account."

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216." and by adding the following new subsections: "(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATIONS

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and cost of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such Act is amended by inserting "113 (c)" after the words "section 111".

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665(g)), is further amended by adding at the end thereof the following sentence: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating units, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

Reorganization Subcommittee of the Senate Committee on Government Operations

STAFF MEMORANDUM NO. 84-2-9. MAY 26, 1956

Subject: S. 3897 (Kennedy et al.)—To improve budgeting and accounting methods and procedures and for other purposes, to supersede S. 3199

This bill was drafted by representatives of the General Accounting Office, in cooperation with officials of the Department of the Treasury, the Bureau of the Budget, and the staff of the committee.

PURPOSE

The bill is intended to amend the Budget and Accounting Act of 1921, and the Budget and Accounting Procedures Act of 1950, in order to permit (1) the submission of budgetary requests for appropriations on an annual accrued expenditure basis, (2) the excess of appropriations on an annual accrued expenditure basis over accrued expenditures to lapse, and the remaining balances transferred to a single account at the end of each fiscal year, (3) the agencies to prepare and execute their budgets on a cost basis, (4) the head of each agency to bring about consistency between accounting and budget classification, (5) the synchronization of the accounting and budget classification with the organization structure, (6) support the budget justifications by information on performance and program costs by organizational units, (7) each agency to maintain its accounts on an accrual basis showing resources, liabilities, and operating costs, (8) integrate property accounting records with the financial accounting system, and (9) each agency to simplify its accounting so as to finance its operations from a single appropriation or fund.

The bill specifically excludes the application of the annual accrued expenditure concept to requests for appropriations for the payment of certified claims, tax refunds, private relief acts, interest on trust funds, revolving funds, pensions, payment to former members of the Armed Forces, their dependents, and other similar appropriations for which the submission on an accrual basis would not serve any useful purpose.

HOOVER COMMISSION RECOMMENDATIONS

The Commission on Organization of the Executive Branch of the Government made 25 specific recommendations in its Report on Budget and Accounting, with the objective of bringing about improvement in the formulation and preparation of budgetary requests for appropriations, the improvement and integration of the budget with the accounting system, and to make possible better management of fiscal and operating programs of the departments and agencies of the Government.

This bill is intended to implement eight of the recommendations submitted by the Commission, which it was determined would require legislative action by the Congress before they can be placed in effect.

The following tabulation contains a digest of each section of S. 3897 together with the specific recommendations which will be implemented by the sections indicated:

S. 3897	Recommendation
Section 1:	No. 4:
Sec. 201 (a) of Budget and Accounting Act of 1921. Submission of budget on program costs and accomplishments.	That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishments, and by a review of performance by organizational units where these do not coincide with performance budget classifications.
(b):	No. 7:
Requests for appropriations shall be submitted on accrued expenditure basis.	That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.
(c):	Do.

S. 3897	Recommendation
Conversion to accrued expenditure basis be made as determined by the President. (d): Lapsing of appropriations and consolidation of balances in a single account for payment of delayed bills.	No. 17: That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.
Sec. 216 (b) of Budget and Accounting Act of 1921.[1] Requests for appropriations shall be developed from cost-based budgets, as determined by the President. (c): Cost-based budgets shall be used by agencies and subordinate units. Administrative subdivisions or funds shall be made on the basis of such cost-based budgets.	No. 6: That executive agency budgets be formulated and administered on a cost basis. Nos. 3 and 6: That for management purposes, cost-based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance. That the executive agency budgets be formulated and administered on a cost basis.
Section 2: Sec. 106 of the Budget and Accounting Act of 1950. (a) Agency heads shall bring about (1) consistency in accounting and budget classification, (2) synchronization of accounting budgeting and organization, and (3) support of budget justifications with performance and program costs by organizational units.	Nos. 4 and 5: That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications. That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.
Section 113 of 1950 act: (b): Agency heads shall maintain accounts on an accrual basis to show resources, liabilities and operating costs.[1]	Nos. 14 and 16: That Government accounts be kept on the accrual basis to show currently, completely and clearly all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accural accounting.
Integrate monetary property accounting records with the financial accounting system.	That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.
Section 3: Simplify the allotment system, and finance each operating unit, from not more than one administrative subdivision for each appropriation or fund affecting such unit.	No. 13: That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

COMPARISON OF S. 3897 WITH S. 3199

This bill differs from S. 3199, on which the subcommittee held hearings on March 21, 27, and 28, 1956, in the following respects:

(1) S. 3199 would have required the Bureau of the Budget to prepare comprehensive operating reports showing the financial results of the departments and agencies. During the hearings on S. 3199, the agencies recommended against

[1] Subsec. (a) not amended.

incorporating this requirement in the law, because part of this objective is already accomplished, and, further, that the President should have some discretionary authority regarding the data needed for explaining and justifying the budget.

(2) Section 1 (c) of S. 3199 would have required the Bureau of the Budget to place budget or fiscal experts in each department or agency for the purpose of coordinating information, to act as liaison officers to keep the Bureau currently informed on the formulation of the budget, and to act as advisers or contact for integrating hte execution of the budget and financial program in each agency throughout the year.

The hearings developed that, to some extent, this has been or is now being done by the Estimates Division of the Bureau. There was general agreement that legislation was not required for this purpose, and that it could be carried out administratively by the Bureau of the Budget.

(3) Section 2 (c) of S. 3199 provided for establishing a Staff Office of Accounting in the Bureau of the Budget to be in charge of an Assistant Director for Accounting. During the hearings on this measure there was general agreement that legislation was not required to effectuate this recommendation, but that the President could establish a staff office of accounting under existing authority of law.

On April 29, 1956, the White House issued a press release stating that "steps have already been taken" to implement Hoover Commission recommendation No. 1 with respect to improving the Bureau's mangerial and budgeting functions, and recommendation No. 10, by the appointment of Mr. Percy Rappaport as an Assistant Director in charge of a new Staff Office of Accounting.

On May 10, 1956, the President sent a special message to Congress (H. Doc. No. 401) stating that he has taken steps to intensify efforts in the executive branch implementing the Commission recommendations, by the establishment and use of modern accounting methods and for the improvement of budget presentation and control. On May 10, 1956, the President submitted a supplemental request for an appropriation in the amount of $405,000 to cover the estimated cost of expanding the staff resources of the Bureau of the Budget in order that the Bureau may provide more active leadership in the advancement of administration in the executive agencies.

(4) S. 1399 provided that the Director of the Bureau of the Budget and the Comptroller General make a joint study of the accounting and internal auditing procedures with a view of eliminating duplicating or overlapping accounting procednres. This requirement was omitted from the revised bill (S. 3897) as being unnecessary since the joint accounting improvement program has been actively carrying out this objective and assisting in the development and adoption of improved accounting, auditing and financial reporting systems and procedures. The joint accounting improvement program was initiated on recommendations of this committee, in 1948, and was provided with sufficient statutory authority for its continuance by an amendment to the Budget and Accounting Procedures Act of 1950, as recommended by this committee during the 81st Congress.

(5) The revised bill, S. 3897, contains a provision for stating appropriations on an accrued expenditure basis, as proposed in recommendation No. 7 of the Hoover Commission, and concurred in by the General Accounting Office. This requirement is included in section 1 (b) of the revised bill together with explanatory data showing that annual accrued expenditures shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

GLENN K. SHRIVER,
Professional Staff Member.

Senator KENNEDY. Will you proceed, Senator?

STATEMENT OF HON. FREDERICK G. PAYNE, A UNITED STATES SENATOR FROM THE STATE OF MAINE

Senator PAYNE. Thank you, Mr. Chairman.

Mr. Chairman, I will be very brief this morning.

Needless to say, it is a great privilege for me to have had the opportunity to join as a cosponsor with the distinguished chairman of this

subcommittee in connection with this bill on which hearings are being held today.

I would like at this point, for purposes of brevity, to place in the record a statement that I have prepared in regard to the measure under consideration.

Senator KENNEDY. Without objection it is to so ordered.

(The prepared statement submitted by Senator Payne is as follows:)

STATEMENT OF HON. FREDERICK G. PAYNE, A UNITED STATES SENATOR FROM THE STATE OF MAINE

Mr. Chairman, distinguished members of the subcommittee, it is a great privilege for me to appear before you today in full support of S. 3897 to improve budget and accounting procedures in the Federal Government pursuant to the recommendations of the second Hoover Commission. This bill, as you know, is the successor to S. 3199 which I introduced early in this session of Congress.

Since this committee considered S. 3199 in March, President Eisenhower and Director of the Bureau of the Budget Percival Brundage have given strong endorsement to the recommendations of the Hoover Commission in this field. The Bureau of the Budget in a statement of April 29, released by the White House, indicated its general approval of practically all of the Commission's recommendations, and it indcated that in many areas it was moving forward to implement those recommendations by administrative action. The obvious determination of the Bureau of the Budget indicated that it could proceed to implement the proposals without legislative action. The obvious determination of the Bureau of the Budget to proceed to carry out certain phases of the Commission's report has caused the omission from this bill of certain provisions which were included in S. 3199. I will indicate these later in my statement.

On May 10 the President sent to Congress a message endorsing the Commission's budget and accounting recommendations and urging the enactment of legislation necessary for their implementation. In this message he said:

"These recommendations of the Commission have been studied extensively by the executive branch with a view toward identifying all possible actions that can be taken to strengthen the administration of the executive agencies. I have already approved plans developed by the Director of the Bureau of the Budget to intensify efforts of the executive branch toward that objective. These plans include actions to accelerate the establishment and use of modern accounting methods, improved budget presentations, and controls. I consider it desirable and necessary that the executive departments and agencies actively and fully participate in carrying out these plans.

"The actions being taken by the executive branch to put many of the Commission's proposals into effect will require close coordination with the legislative branch and merit the support which the Congress should and can provide. I urge that the Congress seek the early enactment of appropriate legislative provisions to support the major objectives of the Commission's recommendations."

I strongly believe that S. 3897 is in complete conformity with the President's message and that its enactment would further his objectives.

Probably the most important and far-reaching provision of this bill is section 1 (a). This would amend the Budget and Accounting Act of 1921 to provide that recommended appropriations for all departments and agencies be presented on an annual accrued expenditure basis. This means that each year the President would request Congress to appropriate the amount of money required by an agency or department to pay for goods and services to be received in that year, and to meet advance payments, progress payments, and other payments as authorized by law to be made in such fiscal year.

This would mean a significant modification in the present practice of requesting appropriations from Congress. At present the President requests and Congress makes available sums of money to be obligated in a given fiscal year or over a period of fiscal years without direct reference to when the accrued expenditures actually occur (liquidation of obligations can follow the period during which funds are available for obligation). As a consequence of this practice large unobligated or unexpended balances have been built up by various departments.

With such large unexpended balances in the hands of departments and agencies (primarily Department of Defense and International Cooperation Administration) Congress is not in a position to control the actual expenditures of the Government in any given year or the actual surplus or deficit in any given year, because the appropriations that it makes specifically for that fiscal year alone do not determine what the executive branch can expend in that year. Actually in any year a very large proportion of the expenditures will be out of funds previously appropriated. For example, over $25 billion of the Government's expenditures in 1956 are being made out of funds appropriated for earlier years. If Congress is to regain control over the level of expenditures it must modify the present practice of making available to agencies funds that will be dispersed over a period of many years. By providing that appropriation requests be made on the basis of annual accrued expenditures, this bill will do much to attain this necessary objective.

Obviously, it would be impossible to carry out this provision at once in all agencies, since most of them have not developed accounting systems that permit them to determine their actual accrued expenditures in any given year at the time when the budget is prepared. Extensive improvements in Government accounting are required before this section can be put into effect throughout the Government. As a consequence this amendment to the 1921 act specifically provides that this change in procedure should be made only "to the maximum extent deemed desirable by the President." Further, it would amend section 201 (b) of the Budget and Accounting Act to provide that this "shall be accomplished in such manner and at such times as may be determined by the President."

To make effective the presentation of requests for appropriations on the basis of annual accrued expenditures, it will be necessary for Congress to change its methods of handling many long-lead-time items such as aircraft, ships, or public works. At present, for example, when Congress provides for a program of large bombers that make take 4 to 5 years to complete, it, at the very outset, makes available to the department concerned authority to obligate sufficient funds to cover the cost of the entire program all at one time. Under this proposed modification, with annual appropriations being only sufficient to liquidate accrued expenditures incurred in the year concerned, Congress will have to grant to agencies that have programs involving long-time-lead items (Defense and the International Cooperation Administration) authority to make contracts that will run for a number of years. After such authority has been given, Congress will appropriate each year only the funds needed to cover the costs actually accrued that year and nothing more. The authority to make long-term contracts can readily be provided through the present system of passing legislation authorizing projects separate from appropriations legislation.

Such changes in appropriation procedure will in effect increase congressional control over expenditures rather than lessen it. It will have two opportunities to examine a program of expenditures. Congress will exercise control first when it authorizes an agency to make a contract commitment. Second, it can exercise a subsequent check or review when it appropriates the funds required to meet the accrued expenditures that will be incurred during a given fiscal year. If progress under the contract is much slower than anticipated when it was authorized or if the goods delivered have been defective, Congress can cause the agency to present an explanation and it can, if need be, provide for the cancellation of the contract.

Thus it is clear that the practice of making appropriations on the basis of annual accrued expenditures will increase rather than decrease congressional control over the purse.

Obviously, in instituting this improved system, there will be a period of transition wherein executive agencies will both be disbursing funds actually appropriated by Congress in previous years to meet the full cost of a program, and be making at the same time long-term contracts under which Congress in future years will appropriate only sufficient money each year to provide for that year's accrued expenditures. The need for such a transitional period will in no way reduce the desirability of the proposal.

By leaving it up to the President to determine when this proposal is to be put into effect for any given agency or appropriation item, a degree of flexibility is provided. Some agencies could almost at once switch over to this new basis, for example, the Bureau of the Mint or the Atomic Energy Commission for its major appropriations. For other agencies much work would have to be done, and, of necessity, the date of the transition will have to be postponed.

A necessary prerequisite to a system of appropriations designed to liquidate only annual accrued expenditures is the use of cost-based budgets. Section 1 (b) of this bill provides that agency requests to the Bureau of the Budget and to Congress should be transmitted in the form of cost-based budgets in such manner and at such times as the President determines. If the program budget provided for the Congress in the Budget and Accounting Procedures Act of 1950 is to become a reality the budgets of agencies must be based upon the cost of their various programs and not merely on the funds desired for obligation in any fiscal year for those programs. The development of cost-based budgets is an essential element in making performance or program budgeting effective.

Without a cost basis any performance budget is necessarily weakened. In any given fiscal year the cost of a given program of an agency will not necessarily be the same as the obligations incurred. To some extent the agency might consume inventories already on hand at the beginning of the fiscal year. Money spent during a given fiscal year might be used to acquire inventories that will remain available for future years. For some agencies the difference between cost-based budgeting and a budget based on obligations will be relatively small. Certainly this is true for bureaus and agencies that involve primarily the use of personnel as, for example, the Bureau of Labor Statistics in the Department of Labor; but for others, such as the Air Force or the Bureau of Reclamation, the difference will be significant.

Some critics contend that a cost-based budget will not yield to Congress all the material that it desires and needs in order to appropriate money wisely. The mere fact that the budgets of agencies are based upon the cost of their various programs does not mean that those agencies will not have available and should not supply to Congress a breakdown of costs on the basis of the major objects of expenditures such as personnel, transportation, procurement, rent, etc. A cost-based budget will supply to Congress more and better material than it has ever had before. It will put the budget officers of departments and agencies on the spot, since with them Congress will be able to say, "A year ago you said the cost of a given program would be so much and actually the figures at the close of the fiscal year show that it cost much more. How did that happen?"

For a cost-based budget to be effective the basic accounts of departments and agencies must be kept on an accrual basis showing the cost of operation of specific programs together with the resources available for them and the liabilities involved. Section 2 (b) of this bill provides that accounts should be kept on an accrual basis showing the cost of operations together with the resources and liabilities involved. Accounts of all agencies should be kept on this basis as soon as possible after the enactment of this law. The bill provides that the principles and standards to be applied in developing such accounts shall be determined by the Comptroller General. Here again it will not be possible to establish accrual accounting for all agencies at once. Some leeway has to be allowed for the development of such improved accounting.

The mere fact that accounts are to be kept on an accrual basis does not mean the end of all forms of obligational accounting throughout the Government. Obviously, every agency still will have to maintain an accounting check on obligations to insure that it does not expend more funds than Congress made available to it, but this involves no major duplication of accounts.

The existence of accounts on an accrual basis showing all costs and resources as well as liabilities will enable the Bureau of the Budget and Congress to exercise an intelligent management control over executive departments and agencies. It will make available the type of information that any business requires for effective management. For example, when such material is available, comparisons can be made between the cost per bed of operating the various hospitals of the Veterans' Administration; likewise, comparisons can be made of the costs of operating hospitals of various agencies—for instance, the Army and the Navy. If it is found that the cost of one hospital is surprisingly high as compared to the cost of another, the Bureau of the Budget and the Appropriations Committees can then demand an explanation. Without adequate cost data effective management control is impossible.

Some sections of S. 3199 are not included in this bill because it is now apparent that these recommendations of the Hoover Commission are being implemented by Executive action. For example, this bill contains no provision concerning the creation of a Staff Office of Accounting in the Bureau of the Budget. The reason for this omission is that after S. 3199 was introduced Mr. Brundage, the Director of the Budget, appointed Mr. Rappaport as Assistant Director for Accounting. It is my belief that the Bureau intends to become the spearhead in the improve-

ment of accounting systems in the executive branch of the Government. As a result, it would not seem legislative requirement is needed.

Neither does this bill contain any provision directing the Bureau of the Budget to station its examiners in the various departments and agencies on a semipermanent basis. To a significant degree the Bureau has examiners visiting the departments. These men have established extensive contacts with the agencies they handle. The Bureau feels that it would not be sound administrative practice to station these men on a regular basis in the department concerned.

Nor does the bill contain a provision requiring all departments and agencies to have an Office of Comptroller. Many agencies already have members of their staff that perform this function. The Bureau of the Budget has indicated that it considers it undesirable to create such an office by statute. However, it is highly desirable that the function be performed by all agencies, and under the supervision of the Bureau of the Budget all agencies should develop methods of providing this important function consistent with their organizational structures.

I believe that this bill implements the major recommendations contained in the Report of the Commission on Organization of the Executive Branch of the Government that require legislative implementation. By this I mean that it will establish a legislative basis for those recommendations for which such a basis is imperative, either because the law does not now provide a legal basis for such activities on the part of the executive branch or because legislation is needed in order that the agencies concerned will understand that Congress desires that they improve their budget and accounting procedures pursuant to these principles spelled out by the Commission.

As a consequence I strongly urge that the Committee on Government Operations favorably report S. 3897 at the earliest opportunity so that action on this very important matter can be completed during this session of Congress.

Senator PAYNE. Mr. Chairman, just let me conclude by saying that the 2 provisions that are in this legislation under consideration are, I believe, 2 of the most important matters that this Congress will have before it this year, because it will enable the Federal Government to finally get down to a basis of placing its fiscal house in order, which has been sadly needed for a long, long period of time.

As I indicated on the floor of the Senate not too long ago, and not in any way detracting from those who have served previously in the offices, it is fortunate in my opinion that we do have at the head of the 2 most important agencies of our Government relating to fiscal matters, persons who have a thorough, complete understanding of the accounting structure that this Government should proceed under, and it so happens that they are the first 2 qualified public accountants who have ever held these offices.

Now I am referring of course to the Honorable Joseph Campbell who is Comptrolled General of the United States, and Percival Brundage, who is Director of the Bureau of the Budget.

It is the first time in the history to my knowledge, and I have done some research on it, that these agencies have ever been headed up by men who are exceptionally well qualified, in fact eminently qualified to develop the proper type of accounting structure that this Government has sadly needed for many, many years, and as a result of their efforts and their work and the wholehearted support that they have given to this legislation that is under consideration, it is my hope that the Congress will back up the chairman of this committee and those who are interested in this legislation, and see that this forward step is taken that will help to put this house in order.

Finally, let me say that no words of gratitude and appreciation could be more deeply expressed than those that I want to pay to Mr. J. Harold Stewart, the Chairman of the Hoover Commission Task Force on Budgeting and Accounting. That group, under his direc-

tion, did a very outstanding bit of work and all who have participated in this certainly will live, I hope, to see many accomplishments take place in the years ahead that will prove conclusively the benefits that can come to our Government by the establishment of the type of fiscal procedures to which Mr. Stewart, as Chairman of this group has given such a great deal of work. Mr. Stewart is to be highly commended for the work that he has put into this, and I know that his dad is also very interested in it.

As the chairman well knows, I got my start in the accounting field largely through the kindness of Mr. Stewart's father. I want to take this opportunity to thank the chairman very much indeed for the privilege of being here, and to give my wholehearted and enthusiastic support to this legislation, which I hope will become law before this Congress adjourns.

Thank you very much.

Senator KENNEDY. Senator, I certainly am most appreciative of your assistance.

You initially introduced legislation on this to implement the recommendations of the Hoover Commission and that was the basis for the present legislation. We are most appreciative to you for your remarks of today and for your previous testimony on this subject.

Senator PAYNE. Thank you very much.

Senator KENNEDY. The next witness will be Senator Barrett of Wyoming.

STATEMENT OF HON. FRANK A. BARRETT, A UNITED STATES SENATOR FROM THE STATE OF WYOMING

Senator BARRETT. Mr. Chairman, I appreciate the opportunity of appearing here, particularly following my colleague and good friend, Senator Payne.

I, too, want to congratulate the chairman on his splendid work in bringing out this legislation.

I appreciate the opportunity to appear here this morning and associate myself as cosponsor of the legislation presently before this subcommittee.

I have long been a strong supporter of the Hoover Commission recommendations—not only in the field of Government budgeting and accounting procedures, but also as they relate to other segments of our vast Federal Government.

For the past two decades we have watched our Federal Government grow to almost unbelievable proportions. Those proposing this enormous expansion in the central Government contend that we must keep pace with the rapid social, cultural, and economic growth of this Nation. Pursuant to the expansion in our Federal Government, laws have been enacted for new procedures in Government operation, all designed to provide more and better service to the people of this country, although it must be admitted that many of these services could well be curtailed.

It seems to me that this subcommittee is now considering important legislation which will have the effect of providing for the American people a sound and realistic program for budgeting the spending of Government funds. The Federal Government does not create any new

wealth; it merely expends that which it exacts from the people through taxation.

The formation of the bipartisan Hoover Commission several years ago came about as a result of widespread belief that there needed to be an injection of new ideas and methods in Government operations, because it was apparent that established procedures were fostering tremendous wastes in Government spending and Government costs. It was generally considered that what this country needed was more business in Government and less Government in business. The field of budgeting and accounting is only one of the many fields or areas into which the Hoover Commission made investigations.

It has been made apparent by the findings of the Hoover Commission that Congress does not have an effective control over Government expenditures; that there is no direct and effective control over costs; that the use of capital funds has created an area of Government spending which is escaping congressional review. As a result, the Congress does not have control of the purse; and, to my way of thinking, it is imperative that such control be regained completely by the Congress. It has been pointed out in the findings of the Hoover Commission that nearly one-fourth of the total budget of the Federal Government is not under the control of Congress.

Mr. Chairman, during the course of the past few years, and more especially since the publication of recommendations of the new Hoover Commission, I have received hundreds of letters from people in my State urging the adoption of Hoover recommendations. Many of these have expressed a favorable interest to the recommendations regarding budgeting and accounting procedures. I have reviewed the several bills which have been introduced during this session of Congress relating to budgeting and accounting procedures and am in general agreement with the objectives of those which are before this committee.

I believe, however, it is most important that we now proceed along the lines of S. 3897, as introduced by Senator Kennedy and cosponsored by over 30 other Senators, including myself. I am convinced that placing the entire Government financial structure on an annual accrued expenditures basis will permit a much closer supervision by Congress over Government spending and costs.

This important step will, I believe, insure the American citizen that his Government is operating on a wise and sound financial basis and is getting maximum use of his tax dollar. I am likewise certain that the implementation of the procedures prescribed by this legislation will effect great savings in Government costs to the people of this country.

Therefore, I am most happy to join with other Members of the Senate in cosponsoring this legislation, and again, I appreciate the opportunity to appear before this committee and to express my support of this legislation.

Thank you very much, Mr. Chairman.

Senator KENNEDY. Thank you, Senator, and we appreciate your support of the bill.

Senator Bennett?

STATEMENT OF HON. WALLACE F. BENNETT, A UNITED STATES SENATOR FROM THE STATE OF UTAH

Senator BENNETT. Mr. Chairman, I appreciate the opportunity of appearing to speak in support of S. 3897 of which I was a cosponsor, and to congratulate the subcommittee on undertaking finally to come to grips with this very fundamental problem.

My statement is very brief. It will take me about 6 minutes to read, and I can either read it or put it in the record without comment, depending on the pressure under which the subcommittee is operating.

Senator KENNEDY. Senator, whichever would be easier for you.

Senator BENNETT. I realize that the subcommittee may have a full session this morning.

Senator KENNEDY. Yes. Well, if you would care to put it in the record, Senator, and if there is anything you want to add to it orally, that would be fine.

Senator BENNETT. I think the statement speaks for itself and I will be very happy to save the subcommittee's time.

Senator KENNEDY. Thank you very much.

The subcommittee appreciates your testimony very much.

(The prepared statement submitted by Senator Bennett is as follows:)

STATEMENT BY HON. WALLACE F. BENNETT, A UNITED STATES SENATOR FROM THE STATE OF UTAH

Mr. Chairman, and distinguished members of the subcommittee, I appreciate the opportunity of appearing before you today in support of S. 3897, a bill to improve Federal budget and accounting procedures, pursuant to certain recommendations of the Second Hoover Commission.

This fiscal procedures measure is the successor to S. 3199, which was introduced by the distinguished Senator from Maine, Mr. Payne, which I was happy to cosponsor. That bill was designed to carry out the majority of the Hoover Commission recommendations in the area of Federal budget and accounting procedures. Included in the measure were certain recommendations which could have been implemented by executive action, but which at that time had not been adopted. Also the bill did not include an important Commission recommendation to the effect that the President's budget and congressional appropriations be stated in terms of annual accrued expenditures rather than in terms of obligated authority as is presently the case.

Shortly after the hearings on S. 3199 by this committee last March the Director of the Bureau of the Budget announced the adoption of certain of the Hoover budget and accounting recommendations, including some of the provisions of S. 3199. I was most pleased to see the administration move so rapidly to implement those proposals that could be accomplished without legislative action. The administration's action is, I understand, one of the reasons we are now considering a new bill, S. 3897, which I was happy to join with the distinguished chairman and Senator Payne in sponsoring, rather than preparing amendments to S. 3199.

At the time this committee considered S. 3199, it was thought that any provision for making the President's budget and congressional appropriations on an annual accrued expenditure basis should be deferred until a foundation of sound fiscal reporting was established. Senator Payne strongly urged that the committee give careful consideration to the inclusion of such a provision in the bill, and that the feasibility of adopting the annual accrued expenditure provision be examined. The Bureau of the Budget and the General Accounting Office have both expressed the desire that such a provision be included in the bill. I am pleased that it is now included in the bill now before the committee.

Our present system, involving as it does, the obligation of sums of money in a given fiscal year or over a period of fiscal years without direct reference to when the accrued expenditures actually occur, has resulted in building up large

unobligated or unexpended balances in the various departments of Government. I understand approximately $25 billion which the Government will spend during 1956 will come from funds appropriated in earlier years.

By requiring that the President's budget and congressional appropriations be stated in terms of annual expenditures rather than in terms of obligated authority I feel that Congress would be able to exert much greater control over the purse-strings of Government spending. Certainly it would make it possible for the Congress to examine anew the effectiveness of programs needing the appropriation of funds that year, even though the program in question had been authorized at an earlier date.

Since such a sweeping change in our budgeting procedures will no doubt require extensive improvements in departmental accounting before it can be effective, I think it was good judgment to specifically provide that this change in procedure should be made only "to the maximum extent deemed desirable by the President." In view of the President's message to Congress on May 10, endorsing the Hoover Commission's recommendations in this area and urging enactment of legislation necessary for their implementation, I am confident that this change will be made in the various departments as rapidly as possible.

The work done by the Hoover Commission on the problems which exist in our Federal budget and accounting procedures was particularly heartening to me. I am happy that the Congress will have the opportunity to put these money and timesaving recommendations in operation. I strongly urge that the Committee on Government Operations favorably report S. 3897, so that we may enact these recommendations during the present session of Congress.

Senator KENNEDY. The next witness will be the Hon. Percival F. Brundage, Director of the Bureau of the Budget, accompanied by Mr. Percy Rappaport, Assistant Director for Accounting, and Mr. William J. Armstrong, Chief of the Accounting Group.

STATEMENT OF PERCIVAL F. BRUNDAGE, DIRECTOR; ACCOMPANIED BY PERCY RAPPAPORT, ASSISTANT DIRECTOR FOR ACCOUNTING; AND WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING GROUP, BUREAU OF THE BUDGET

Mr. BRUNDAGE. Good morning, Senator.

This is Mr. Rappaport, the Assistant Director for Accounting, and Mr. Armstrong.

Senator KENNEDY. Would you care to proceed?

Mr. BRUNDAGE. We have already submitted, Mr. Chairman, the report of the Bureau of the Budget on your bill, which I think you probably have copies of, and I think it covers the points. Would you like me to go over them?

Senator KENNEDY. Yes.

Mr. BRUNDAGE. Section 1 (a) of the bill provides that appropriations be determined on an annual accrued expenditure basis to the maximum extent deemed desirable and practicable by the President. Appropriations on this basis would cover goods and services to be received in a fiscal year and would also include amounts necessary for advance payments, progress payments, and such other payments as are authorized to be made in such fiscal year.

We believe that this change would have many advantages both for the legislative and the executive branches.

Senator KENNEDY. Would you just give us how that would work as a practical matter?

Mr. BRUNDAGE. Well, the principal point is that it would follow more closely the common business practice. It would involve some kind of authority for long-lead-time items, but the budget would

then present what was expected to be spent in the next fiscal year, and would give Congress a double chance, first, when the authorization for the long-lead-time items was presented, to review the program, and then, second, to review the proposed expenditures immediately in advance of the year in which goods and services are to be delivered.

Senator KENNEDY. Do you feel that that would present any problem, would make anyone reluctant to enter contracts with the Government any more than they are today?

Mr. BRUNDAGE. I don't think so; no.

Senator KENNEDY. In other words, there is the possibility the Congress might refuse to appropriate money—at least in theory—to complete a job?

Mr. BRUNDAGE. I personally don't think that they would, Senator Kennedy. It seems to me that as soon as it was appreciated just what the purpose and intent of this change was, that business would accept it.

I believe that modifications of the contract authorization procedure have been used before, but at that time we did not have the other accounting background which we hope and intend to have.

When you have the accounts of the Government on an accrued expenditure basis, then I think it will be very easy to get everyone concerned to see the desirability of this switch, and that is why I think the proposals in this bill are sound, that the President be given discretion to put it in effect over a period of years, we would not propose doing it immediately. We want to get the accounts on a sound basis first.

Senator KENNEDY. In other words, you feel a firm doing business with the Government, with a contract which is supposed to last for a number of years, would have as much security under this system when the money has to be appropriated separately each year as they would have with the money appropriated at one time and expended over a period of years.

Mr. BRUNDAGE. I do, because it would go before the same committee you see. This would go before the Appropriations Committee, for the contract authority, and we feel under the present law that the Appropriations Committee has the authority to allow contracts to be made without the immediate appropriation of funds.

However, it is being made a little more specific in this bill.

Senator KENNEDY. In other words, there is really not greater security—as one of the questions brought up—for firms doing business with the Government under the present system than there would be under this new system?

Mr. BRUNDAGE. I feel that way.

Senator KENNEDY. There is no greater risk than would be taken under existing procedures?

In other words, they would be given as much protection under this system as they are under the present system, is that correct?

Mr. BRUNDAGE. Well, there is a little feeling under the present operation that when the Congress has appropriated the money, that then the Treasury is more obligated to pay than if you had the contract authority only. However, I believe this is largely psychological because contracts today under appropriated funds contain cancellation clauses and it is our feeling in discussion with businessmen that as

soon as they operated under this basis, all of their doubts would be removed.

Senator COTTON. May I ask a question, Mr. Chairman?

Senator KENNEDY. Yes.

Senator COTTON. During this period of transition, assuming this bill passes, would it mean that certain departments, would be operating under one system and other departments under the other, and could it mean a considerable duplication and extra bookkeeping because of this period of transition?

Mr. BRUNDAGE. I don't think so, Senator.

Our proposal is to put the accrual accounting system in one department after another which would support the budget estimates on the new basis. I believe the transition can be made on a gradual basis without duplication or extra bookkeeping.

Senator COTTON. That is it would go by units?

Mr. BRUNDAGE. Yes, that is right.

Senator COTTON. So that each department or each bureau would be——

Mr. BRUNDAGE. We have a number of departments now where part of their operations are on an accrued expenditure basis. The Corps of Engineers and the Bureau of Reclamation, for example, have accrual accounting but some other parts of the departments are not on that basis.

Senator COTTON. If this bill passes what happens to the present carryover balances which are estimated at a very large sum, perhaps $48 billion or somewhere in that vicinity?

What happens to those balances?

Mr. BRUNDAGE. Well, we would not have that canceled but we would have it worked out.

Under the new procedure there would be contract authorizations. But the obligation carryover should not be anything like that I think in total amount.

Senator COTTON. What do you mean that you would not cancel it but you would have it worked out?

I mean would this nullify the outstanding definite appropriation obligation carryover, or would you go through the period of time necessary to take up the slack?

Mr. BRUNDAGE. There would be a period of time when it would be gradually diminishing, sir, yes.

Senator COTTON. That would be quite a long period?

Mr. BRUNDAGE. I think in 10 years it ought to be possible.

Senator COTTON. Just one other thing, Mr. Chairman.

I did not mean to interrupt you at this time.

Would it be possible to furnish the subcommittee with either a simple chart or a memorandum that would take 1 or 2 specific appropriations and show us just exactly the impact, the effect this bill would have on those specific appropriations, how they were handled before, and how they would be handled now?

Mr. BRUNDAGE. I would be glad to, sir.

Yes, we can do that.

(The chart requested by Senator Cotton was submitted to the Committee by the Bureau of the Budget by letter dated June 21, 1956. See appendix A, p. 348.)

Senator KENNEDY. Would you continue?

Mr. BRUNDAGE. I think we have covered the accrued expenditure basis pretty thoroughly in answer to the questions you have raised.

A new subsection 201 (b) in the bill provides that certain types of appropriations are not subject to the accrued expenditure basis. Those are generally appropriations covering payments which by reason of law are required to be made, payments out of working funds and things like that.

New subsection 201 (c) provides desirable flexibility for the transition to the accrued expenditure basis, which we have just been discussing.

New subsection 201 (d) provides at the end of each fiscal year for appropriations made on an accrued expenditure basis, that the difference between the actual accrued expenditures for the year and the amount of the appropriation would lapse, and the amount if any representing accounts payable would be merged with the appropriation or funds for the same general purpose for the ensuing fiscal year, and constitute a single account.

That means that where the appropriation was made for a year and the orders were placed and deliveries made, but all of the amounts had not been paid in cash by the Treasury, they would be treated as an ordinary accounts payable and carried forward into the next year. In other words if they had actually ordered the goods, and they were delivered, then it would be carried forward as an ordinary accounts payable.

Section 1 (b) of the bill adds two new subsections which together provide for the use of cost-base budgets.

At the present time four appropriations are included in the President's budget on a cost basis, and in 37 other cases cost-base budgets are presented in the budget justification material. They are prepared by the departments and presented to us as part of their justification for expenditure, but they are not included in the budget document.

We are, Mr. Chairman, in agreement with the bill as it is now drafted.

We believe it gives effect to the major recommendations of the Hoover Commission on Budget and Accounting, and has our full support.

Senator KENNEDY. How as a practical matter would it be more economical for the Government if this new system went into effect and we gave the Government the right to make long-term contracts? At the present it is possible to make appropriations which can go on for a long period of time.

What is really the difference as far as Government spending is concerned, between making a contract for a certain amount and actually appropriating the money for that amount at one time?

Mr. BRUNDAGE. Well, when you have your new obligational authority voted by the Appropriations Committee and the Congress, they do not necessarily obligate all of the money in the budget year. A part of these large carryover balances very often relates to specific items in which there have been changes and such funds have been used in connection with the revisions.

While if you get a contract authority it would be possible to obtain better control.

Senator KENNEDY. In other words, if the Defense Department were making a contract for a certain type of plane and the Government

decided not to buy those planes, it could use the money for another type of purchase and under the proposed system it could not; is that right?

Mr. BRUNDAGE. In my opinion, it would correct the present situation and Congress would have better control.

Senator KENNEDY. Do you feel that that would be restricting the agencies unduly?

Mr. BRUNDAGE. Well, I would rather you heard from Defense about it. I personally don't think it would; no.

Senator COTTON. I seem to recall from my days on the Appropriations Committee in the House that under the present system many times appropriation would be made on an estimate of what a fairly long-term project was going to cost, and then after 2 or 3 years they would come back and say it was going to cost more than they anticipated and they had used it all up and the project was only partially completed and they had to have some more.

Under this system if the money is not furnished or promised or obligated by Congress until the contract is made, it would put an end to that sort of thing largely; would it?

Mr. BRUNDAGE. Well, I would hope so, Senator; yes.

Mr. Rappaport, Asssistant Director, has been working out and is working out the details on this operation.

Perhaps you would like to comment on that question.

Mr. RAPPAPORT. I am just trying to see if I can explain it in simple terms here.

Senator COTTON. It will have to be simple if I am going to understand it.

Mr. RAPPAPORT. Well, it seems to me that under the present system the difficulties that you just described do exist; that is, you discover at a certain point in time that you have spent all the money and have not finished the job.

You come back for more money in that case.

Now, under the proposed idea of appropriations, an appropriation would be made on an annual basis, that is, for an amount equal to the requirements projected for the ensuing year, and in that way any difference would not be very significant.

We would not have in those instances large discrepancies. The money and the performance would be closely related because of the short period of time involved and it could pretty well be seen what was going to happen in that period.

Senator COTTON. Well, suppose the Navy is building an expensive carrier that takes a number of years to build and it runs into a large sum of money.

Do you mean that they only can make contracts for a portion of it for each year?

Cannot they contract ahead for the whole sum?

Mr. RAPPAPORT. Oh, yes; they could have contract authority for more than a year, but it would be reviewed at the end of each year as to the position that existed then with respect to each contract.

Mr. BRUNDAGE. You see, as this carrier is now being built, Congress does not have another chance to look at it, because you have appropriated, we will say, $60 million or $160 million, and you don't have another look at it until the $160 million is spent.

In this case they come in with an estimate of $160 million and you give them contract authority for $160 million. Then you estimate it is going to cost $5 million the first year and $10 million the next, but each year they come in with a new estimate as to the total cost.

So after you have spent, we will say, $25 million and they come in and they ask for $50 million the next year and they say, "Well, we find it is going to cost $250 million instead of $160 million," then you can have another look and say, "Well, perhaps we ought to convert it into an auxiliary or something like that."

I don't think that you will be able to stop altogether these bad estimates. I think it is inevitable as prices go up, as conditions change, that you will have mistakes in judgment, it is human nature, but I think this ought to help, Senator.

Senator COTTON. In this carrier, if it begins to cost so much that a congressional committee says you had better convert this into an auxiliary, what happens to the private contractor? I am afraid I don't know much about the technicalities—he has proceeded with the expectation that this is going to take 5 or 6 years to build and it is all going to be built and has entered into a contract.

As Senator Kennedy asked sometime ago, what happens to this private contractor if a congressional committee on this looksee from year to year decides that it is costing too much and wants to stop it?

Mr. BRUNDAGE. Well, he will have a contract for $160 million and not for $280 million, and it would have to be a negotiated settlement, as it would in any cancellation today.

Senator COTTON. So reverting again to Senator Kennedy's question, there is at least some slight element of insecurity for the person or corporation with whom the Government department is contracting under this new system that is not present under the old?

Is that a fair statement?

Mr. BRUNDAGE. Well, I don't personally think that a contractor who has assigned contract by the Government to construct a carrier for $160 million would be any worse off than the same contractor who had received an appropriation and had signed the same contract.

Perhaps there is some little difference in psychology, but I doubt if there would be any difference in law.

Senator COTTON. In practice?

Mr. BRUNDAGE. Yes.

Senator COTTON. Just one more question.

You told me, referring again to these present $48 billion of carry-over balances, you find it might take 10 years to take up the slack on those.

That means that in your opinion it would take a matter of 10 years to actually put the system under this bill into operation if the bill is passed?

It seems to me to be quite a period.

Mr. BRUNDAGE. It would be my guess, and it is only a guess, it would take about 5 years to put the accounts on accrual cost basis, and that we would then thereafter take about another 5 years in order to clean up all of it——

Senator COTTON. Gather up all of the remnants?

Mr. BRUNDAGE. Yes; that is right.

I don't know whether Mr. Armstrong has any comment on that.

Mr. Armstrong is our staff member who has been in charge of the accounting group.

Mr. ARMSTRONG. As Mr. Brundage has indicated, some agencies have accrual accounting now, and there are some others that could start in the not too distant future on this basis, but it would have to be worked out on a gradual basis with accrual accounting installed in those places where it is not in effect today.

Senator KENNEDY. It seems to me this would place a much heavier burden on you and on the Appropriations Committees who would have to do with reviewing each year rather than letting the agency itself do the direct supervision and the reviewing of each project as it went along.

Do you feel that that is correct?

Mr. BRUNDAGE. Well, it will take a little more staff, yes. We would not expect to build up a large staff like the General Accounting Office, which has of course a tremendous volume of detail auditing review work to do.

Senator KENNEDY. In our conversations as I said, Mr. Brundage, I was impressed by the limited number of people the Bureau of the Budget does have working for it in view of its responsibility.

Will you repeat that figure?

Mr. BRUNDAGE. We have 410 on our staff and we are asking for another 30 of professional staff.

It is a relatively small increase, but it is awfully hard to get the right type of people that we are trying to get, so we would rather take our time about it and do it gradually.

Senator KENNEDY. Just a last question.

Is it your feeling that this would result in not only more efficiency but in greater economies in Government?

Mr. BRUNDAGE. I do, yes.

Senator KENNEDY. Of a substantial nature?

Mr. BRUNDAGE. Well, it is awfully hard to estimate the savings. The Hoover Commission estimated savings at a certain percentage of the total expenditures, and they said that business has found that by improving their accounting, and reporting, and by better control, they can save between 5 and 10 percent of the total. That is the way they made their estimate. But I would hesitate to say how much. I think it would be substantial.

Mr. RAPPAPORT. I would like to say at that point that the savings would come about through better management by officials of the agencies. The real benefit would come from cost accounting and accrual accounting.

Senator KENNEDY. Because the responsibility would be on them more directly than it is at the present time?

Mr. RAPPAPORT. Exactly, and they would have a better tool with which to operate than they now have.

Senator COTTON. And there would be closer and more constant supervision both by your agency and by the congressional committees?

Mr. BRUNDAGE. That is right.

Senator COTTON. This may be a foolish question, if so, it is not the first one I have ever asked—what would it do to the actual physical appearance of the budget?

I know the budget now is a Sears, Roebuck catalog.

Would this make the budget more, or less, complicated?

Mr. BRUNDAGE. I would hope it could be made considerably less complicated.

Senator KENNEDY. Thank you very much, gentlemen.

The next witness will be the Honorable Joseph Campbell, Comptroller General of the United States, accompanied by Mr. Robert F. Keller, Assistant to the Comptroller General, Mr. Karney A. Brasfield, Asistant to the Comptroller, and Mr. John W. Moore, attorney, General Counsel's Office.

Do you have a statement?

Would you care to proceed?

STATEMENT OF JOSEPH CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL; KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL; AND JOHN W. MOORE, ATTORNEY, GENERAL COUNSEL'S OFFICE, GENERAL ACCOUNTING OFFICE

Mr. CAMPBELL. I have, Mr. Chairman, and I would like to read it right through.

It is about 10 pages.

We appreciate the opportunity to appear before you to endorse the provisions of S. 3897. This bill, which is an outgrowth of the hearings before your subcommittee in March on S. 3199, contains the legislative provisions necessary for the effective implementation of the recommendations contained in the budget and accounting report of the Hoover Commission.

Certain recommendations pertaining to the settlement of claims and the relief of accountable officers have been covered by legislation already enacted or being separately considered.

In summary, the provisions contained in this bill are designed to accomplish two broad objectives:

1. To improve financial administration in the executive branch; and
2. To substantially strengthen congressional control over the financial affairs of the Federal Government.

Fully effective financial administration requires the use of many tools. It cannot be accomplished solely by legislation. However, legislation can be most helpful by establishing congressional objectives and in creating a framework within which continuing improvements will be greatly stimulated.

We regard S. 3897 as an essential step to pave the way for the accomplishment of the much-needed improvements recommended in the budget and accounting report of the Hoover Commission.

There may be some who would recommend that you take only a partial step in current legislation in view of the need to develop more adequate programing, budgeting, and accounting in certain areas before the full and final objectives can be reached.

It is our view that action will come more quickly if the ultimate objectives are adopted as a matter of congressional policy now, with the full recognition that implementation must necessarily be under-

taken through an evolutionary approach over a considerable period of time.

By the same token, it is apparent that all procedural questions cannot be completely answered except by specific application of the underlying principles cases by case.

Here again, if the decision to move forward were to be delayed pending detailed consideration of every eventuality the chances for current progress would be slim.

If present practices were highly effective, a reluctance to accept changes would be understandable. However, the lack of cost data to adequately support past actions and proposed plans in many situations, and the huge unexpended balances to which the formal processes of congressional control do not apply, furnish ample evidence of the need for improvement.

There is one other general observation which seems appropriate. We think that it should be clearly understood that, in order to obtain full benefit of the Hoover Commission recommendations, the new methods of control recommended should not be merely superimposed upon the present fund controls which have often been employed administratively in a manner which handicaps rather than helps in the effective exercise of management responsibility.

Nothing could be further from the intent of the recommendations as we understand them. A fresh and constructive viewpoint based on a willingness to accept new ideas, appropriately adapted to the particular situation involved, is essential if progress is to be made.

S. 3897 sets forth congressional policies and objectives which would be put into practice by the executive agencies under rules and procedures to be developed by the Bureau of the Budget and, in some cases, by the Comptroller General.

In other words, the bill would prescribe no hard and fast procedures and the practical aspects would need to be worked out in collaboration with the agencies in the same general manner as other similar provisions of law are now applied.

Moreover, there must necessarily be an evolutionary approach to the attainment of the objectives contemplated by the bill.

Section 1 (a) of the bill adds a new subparagraph to section 201 of the Budget and Accounting Act of 1921 to provide that the contents of the annual budget shall include information on program costs and accomplishments in such form and detail as the President may determine and at such times as he may consider practicable.

Such information should permit the Congress to give consideration to both the relative size of programs and the question of economy and efficiency, as proposed in the first part of recommendation No. 4 of the Hoover Commission report.

It is in terms of accomplishments and their costs, and not merely in terms of appropriations and obligations thereunder, that the President and the Congress can most readily determine what the real costs were and what was obtained for those costs.

ANNUAL ACCRUED EXPENDITURE BASIS OF APPROPRIATIONS

Section 1 (a) also adds a new subsection 201 (b) to the Budget and Accounting Act of 1921. This authorizes the submission to Congress

of requests for proposed appropriations on the basis of the amounts of annual accrued expenditures, to the maximum extent deemed desirable and practicable by the President.

New subsection 201 (c) provides that the timing of the conversion to the annual accrued expenditure basis for stating proposed appropriations shall be accomplished at the discretion of the President.

This change in the basis of appropriations can provide improved control over costs and expenditures if the companion tools of accrual accounting and budgeting on a cost basis are effectively installed by the executive agencies.

The annual budget surplus or deficit is measured by the difference between annual receipts and expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress and the President a much greater opportunity to control the level of operations during a particular budget year on the basis of conditions existing in that year.

This would mean the elimination of the vast carryover balances now available for expenditure at the discretion of the executive agencies.

As matters now stand, Congress has little control over spending once the funds are voted, and the President has limited control over spending after apportionments of authority to incur obligations are made by the Budget Bureau to the agencies.

The present situation stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received by the agencies.

Aside from the question of improved control, the annual accrued expenditure basis of appropriations affords a better means of obtaining information needed in relating past accomplishments to present perfomance and future plans Under the obligational basis of appropriations the information supplied to the President and the Congress through the budget process is in terms of obligations (contracts, etc.) issued, unissued, and planned for issue.

This does not measure currently the cost of progress or performance. It is only when a program is totally completed that obligations approximate costs and then only if all resources have been consumed.

Under the annual acrued expenditure basis of appropriations, Congress would require and be supplied with data as to costs in relation to annual periods, the accomplisments obtained and to be obtained for those costs, and the inventories and other assets on hand, as well as the new money required to carry on the program.

It is sometimes asserted that expenditures are the inevitable result of the granting of obligational authority. Although some form of authorization preceds the actual expenditure of funds it is not inevitable that the amount of appropriations made in terms of obligating authority becomes the measure of ultimate expenditures.

The large carryover of unexpended appropriations under the present method is an obvious example in point.

An examination of the present-day practices in the long lead-time area (for example, in procurement, construction, and research and development) involving extensive reprograming, a multitude of changes in engineering plans and specifications during the period of

production of many items, and similar factors, disclose the many changes made after obligating authority has been granted.

Because of these inherent factors in the operations involved, cost budgets, teamed with appropriations on an accrued expenditure basis, would require a type of continuing budget presentation that would bring out the adequacy of management planning or the lack of it and would give the Congress an opportunity to have a voice in setting the level of operations from year to year.

It is inherent in an accrued expenditure basis for budgets and appropriations, as provided in this bill, that congressional authority be granted as necessary for the advance planning which precedes the phase of operations covered in an annual accrued expenditure appropriation.

The Hoover Commission noted this necessity in its discussion preceeding is recommendation No. 7. However, we believe tht the necessity for forward planning authorizations should be determined by the Congress as circumstances may warrant.

This authority has been exercised in the past by the Congress in the form of "contract authorizations" but it is significant that both "contract authorizations" and subsequent appropriations "to liquidate contract authorizations" were stated in terms of obligational authority.

Under the annual accrued expenditure basis of appropriation the initial authorization would be stated in terms of broad authority to make commitments, whereas the annual appropriations would be stated much more definitely in terms of accrued expenditures as specific plans are developed.

It is essential that the initial authority, which may cover a forward period sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans.

On the other hand, as these plans take shape in succeeding years much more precise planning and appropriations are practical when stated in terms of accrued expenditures.

Thus, the use of contract authority, when considered by the Congress to be necessary in connection with the proposed annual accrued expenditure basis of appropriation, is not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

The need for contract authority, or any other form of obligational authority, in conjunction with annual appropriations on the accrued expenditure basis is limited to the areas of operations where forward contracting is required to provide an orderly flow of product. It is not required in operations concerned primarily with salaries, allowances, travel expense, and other current administrative expenses.

In view of the substantial changes that would be required in many agencies to place into effect the accrual accounting and cost budgeting practices necessary to support appropriations on an annual accrued expenditure basis, we endorse proposed subsection 201 (c) which permits flexibility in the timing of the change in the method of stating appropriation requests.

It is believed that it is essential to approach such a change on the basis of individual programs or appropriations rather than any sweeping across-the-board plan.

First of all, the successful use of these practices presumes a basic foundation of adequate accounting and the ability to program effectively. These fundamentals do not exist in a number of significant areas. To endeavor to adopt the annual accrued expenditure basis of appropriation before the groundwork is laid for it could only lead to confusion and unsatisfactory results.

Moreover, the greatest advantages to be attained are in the areas of operations involving long lead-time commitments, such as in major procurement, construction, and research and development.

These appropriations are relatively few in number and it is logical to prove the value to Congress and the executive branch of the revised practices in such areas before extending the practices, governmentwide, in the areas where the advantages to be gained are significantly less.

The selection of areas to be converted and the timing of the changes should be a matter of mutual determination between the Congress, the Budget Bureau, and the individual agency.

In a change of this magnitude, there is little to be gained and much to be lost by making uniformity across the board the criterion for adoption.

Subsection 201 (d) is an essential part of the annual accrued expenditure basis of appropriation to provide that funds not required to finance work performed during a fiscal year shall cease to be available after the end of that fiscal year.

It is inherent, however, under an accrued expenditure method of financing that liabilities must be recognized as work is performed.

This subsection permits the portion of the appropriation represented by liabilities for work performed but unliquidated by June 30 of any year to be carried forward and merged, for payment purposes, with the appropriation of the ensuing year.

COST-BASED BUDGETS

Section 1 (b) of S. 3897 amends the Budget and Accounting Act, 1921, by adding new subsections 216 (b) and (c) to provide for the use of cost-based budgets in requests for and establishment of appropriations, and in the administration and operation of the departments and establishments and their subordinate units.

As previously indicated, the basic need of the President and the Congress is adequate factual data as a basis for decision making. The facts furnished to the President and the Congress can be no better than those available to the management for its own purposes, that is, the needs of the two for financial and operating data, although differing as to extent of detail, are entirely compatible.

They require, in our opinion, data which relates accomplishments and future work plans to costs in terms of total resources consumed and to be consumed, and to the resources available in the form of inventories and other assets as well as to new money or authority needed.

This type of budget data emphasizes control of total resources on hand and their use, rather than the present emphasis in Government budgeting on spending authority.

We, therefore, endorse the use of cost-based budgets, to the fullest extent practicable, as a principal necessity in developing a more meaningful reporting structure to provide full disclosure of agency operations, assets, and liabilities and to provide effective management control.

In using the term "cost-based budgets," we understand it to have equal application to capital acquisitions and construction as it does to day-to-day operations. For example, a cost-based budget for a procurement activity would relate to the cost of the items being procured or the cost of producing an article or a service.

Cost budgeting need not be restricted to consumption operations. However, in considering consumption operations, there is obviously a limit to which the concept can be carried and continue to have a practical value.

For example, careful consideration would need be given to the extent to which the inclusion of depreciation as a cost would serve a useful purpose in the presentation of budgets to the Congress.

This is particularly true with respect to the activities of the Department of Defense. The value and utility of cost-based budgets are certainly not dependent upon the application of depreciation concepts to military hardware.

ACCOUNTING AND BUDGET CLASSIFICATIONS

Section 2 (a) of the bill is intended to achieve, insofar as possible, clarity in patterns of financial management in the executive agencies. Our previous comments on the annual accrued expenditure basis of appropriation and cost-based budgets are equally applicable to this section.

Programing, budgeting, accounting, and reporting must be on consistent terms in each executive agency if programs are to be adequately evaluated and judged at all times, from the initial stages of projection, through planning and operation, to completion, in relation to their costs and accomplishments and the organizational units involved.

The attainment of these important objectives will require close cooperative working relations between the General Accounting Office, the Budget Bureau, and the individual agencies.

We are prepared to contribute our best efforts to this end.

ACCRUAL BASIS OF ACCOUNTING

Section 2 (b). The maintenance of accounts on an accrual basis, provided by this section, is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill. It is by the use of the accrual basis, to the fullest extent appropriate, that accounting can make its greatest contribution to full disclosure of and control over all assets, liabilities, income, expenditures, and the results of operations of the executive agencies.

Experience under the joint accounting improvement program clearly indicates the advantages of the accrual basis when applied to significant items.

Our statement of accounting principles provides for the appropriate use of this method of accounting. We believe its use should be expanded throughout the Government.

We also believe that adequate monetary property accounting records must be kept as an integral part of accounting systems maintained on the accrual basis to supply the financial information regarding property accumulations and uses required by executive agency management and the Congress.

The provisions of this bill concerning the annual accrued expenditure basis of appropriations, cost budgeting, consistency and synchronization of budget, accounting, and organizational patterns, and the simplification of the allotment system will, individually and collectively, provide great stimulation to the establishment of appropriate accrual and cost accounting in the executive agencies.

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

Section 3. The simplification of the allotment system for allocating funds as proposed in section 3 of this bill is sound and most desirable.

The existing unwarranted subdivisions of funds is one of the greatest deterrents to improved financial management. We believe that administrators may be willing to forego the voluminous and detailed type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control.

Better programing tied in with improved accounting through the development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Senator KENNEDY. That statement is very helpful, Mr. Campbell.

On page 5 it says:

> Although some form of authorization precedes the actual expenditure of funds it is not inevitable that the amount of appropriations made in terms of obligating authority becomes the measure of ultimate expenditures.

I wonder if you could explain that in some detail.

In other words, your point is that these unexpended balances under the present system indicate that the amount of money appropriated is not actually a good indication of the amount to be expended?

Mr. CAMPBELL. My feeling is that the estimates were probably made honestly, but there have been errors, and the result is that there may be large accumulated balances available in certain projects, just as conversely there may be overruns in other projects.

Senator KENNEDY. Well, now, under the present system there is some fluidity as far as moving appropriations from one specific area to another within, say, the Department of Defense.

It does not have to come back to Congress for a supplemental appropriation every time it makes a change in design or engineering?

Would it have to under the proposed system?

The testimony of Mr. McNeil before indicated it might have to come back frequently for supplemental appropriations under the suggested system.

Mr. CAMPBELL. I am not sure I know what he means.

I have not seen his statement on that. But I think when Defense comes in for appropriations, they could cover that by some form of general authorization.

Senator KENNEDY. But the point is that under the present system the control goes completely to the agency rather than being kept by the Congress or the Bureau of the Budget because there is this large amount of unexpended unobligated balances which can be, at least to some degree, moved from a project which at least was in the Congress' mind when the money was appropriated; is that correct?

Mr. CAMPBELL. That is my view.

Senator KENNEDY. This statement on page 6 at the bottom:

> Thus, the use of contract authority, when considered by the Congress to be necessary in connection with the proposed annual accrued expenditure basis of appropriation, is not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

I wonder if you or one of your staff could just illuminate on that period prior to 1950?

Mr. CAMPBELL. Mr. Brasfield might answer that.

Mr. BRASFIELD. I think I might elaborate on that in this way: In the prior period when contracting authority was used, both the appropriation and the contracting authority were on an obligational basis. There was not a follow-through provided in the ordinary or logical budget process to review that authority. It was deemed then as being almost inevitable that once contracting authority was granted, appropriations must follow.

That need not be the case, and having the appropriations on an annual accrued expenditure basis gives Congress the tools to review both the contracting authority and the followup on it in appropriations.

In other words, this system as proposed in this legislation contains the elements of an orderly review by Congress each year of both the planning aspect and the actual grant of authority to expend funds.

Senator KENNEDY. Which was not——

Mr. CAMPBELL. Which was not a part of the prior process.

Senator KENNEDY. Do you feel the question of depreciation on Department of Defense items is going to be a problem?

You made reference to that at page 9, particularly down in the middle of the page.

Mr. CAMPBELL. Mr. Chairman, we referred to it merely because there might be some fear that in using an accrual basis where depreciation ordinarily is an essential factor it might be applied across the board in defense hardware particularly, and, of course, we just don't think that would be necessary.

Senator KENNEDY. In other words, this accrual system would not apply as far as depreciation is concerned on the Defense Department's items which might have a military significance and therefore the depreciation would be abnormal?

Mr. CAMPBELL. The difficulty of keeping track of it would not be worth the operating results—would not be worth while in helping the management.

Senator KENNEDY. Because that cannot be done in the case of those items?

Mr. CAMPBELL. No, that is not an argument against it.

Senator KENNEDY. The last question is this.

On page 11:

> The simplification of the allotment system for allocating funds as proposed in section 3 of this bill is sound and most desirable.

The existing unwarranted subdivisions of funds is one of the greatest deterrents to improve financial management.

I wonder if you could expand a little on that sentence and tell us a little more about the existing unwarranted subdivision of funds.

Mr. CAMPBELL. Well, we have a feeling that it is overdone and is a very almost primitive way of keeping record of what you are doing.

I think perhaps Mr. Brasfield might wish to speak of a particular case.

Mr. BRASFIELD. The essential difference in the goal that this legislation seeks is that the allotment control and the control of new money would be handled by those folks who are concerned with spending new money.

But the use of resources in day-to-day operations would fall on the manager who is using men and materials, and there you would use cost control and not an allotment control.

In other words, he is not the one who uses that dollar in the first instance in many cases. He is using supplies that have already been bought, that are already in possession of the department or agency.

In the case of manpower and salaries paid currently, it is essentially the same. There is essentially no difference.

But as would be used in business, it is the shop foreman or the working supervisor who is charged with the responsibility of getting efficiency out of the men and materials that he uses from day to day.

That is the type of cost control that this bill would make possible with the allotment control being simplified at broader levels where the contracts are entered into in the first instance, where the materials are purchased in the first instance.

It would offer a great deal of opportunity for simplification and actually much better cost control.

Senator KENNEDY. Would you give the subcommittee a practical example of the present system and the system which would be in effect under this bill?

Mr. BRASFIELD. There have been instances and which are, as a matter of fact, referred to in the Hoover Commission report where the subdivision of funds are so great, so numerous that the manager becomes administrator of little pots of money.

Senator KENNEDY. I wonder if you could just give us a more concise and working example.

Mr. BRASFIELD. Well, I think probably one of the most understandable examples has been in a field organization where the commander or the head of the field office is given his money in a number of different allotments, an allotment for travel, an allotment—it could even go so far as for long-distance telephone calls, an allotment for salaries of people, a separate allotment for overtime, all of those things. He has to then run and look at each one; they theoretically even go look to see whether he can make a long-distance telephone call, go look at his money to see whether or not he has enough money in that particular slot to make a long-distance telephone call, as opposed to being put in charge of the operation and saying now you line up your budget on the basis of the way you propose to conduct this operation.

As long as you stay within that budget you are considered within the administrative bounds of the responsibilities we assign to you.

Senator KENNEDY. So that instead of an allotment being made for all long-distance calls all over the country at all bases and the separate allotment for all food all over the country for all bases, the base would be given a total budget or it would be up to the commanding officer to make up the budget for the whole base?

Mr. BRASFIELD. That is right.

Senator KENNEDY. That would make the problem more complicated actually from the point of view of the central authority. It might make the base commander's problem easier but from the point of view of maintaining control over the expenditures, you would have this basic problem of different bases in different areas of the country with different costs.

Would it really make the problem at the top any easier?

Mr. BRASFIELD. It would be simpler in this respect, that the appropriation is not splintered and fractured into those elements.

It is now administratively divided after the appropriation is granted on a broad basis by the Congress, so that the problem is one created administratively and not by the appropriation structure to begin with.

Senator KENNEDY. Wait, I did not understand that.

Will you tell me again now?

Mr. BRASFIELD. Dividing the money up into these different elements by which it will be spent is an administrative decision in the first instance.

Senator KENNEDY. In the Department of Defense, for example?

Mr. BRASFIELD. In any department.

Senator KENNEDY. When the Congress appropriates money for the management of this base—in the last analysis that may be what they are doing—then you mean the point is they appropriate for the entire base or at least the Department of Defense or the Bureau of the Budget does and then it is broken up along the line into the various categories.

Mr. BRASFIELD. Administrative discretion is much broader than that.

The appropriation by the Congress would be in such broad terms as maintenance and operation of the Army or the Air Force, not even by a single base, so that the opportunities for simplification in the control of the flow of new dollars is an administrative problem rather than a congressional one, so that the extent to which authority is delegated and the manner in which it is fractured and splintered in the delegation is an administrative problem, and that is why this legislation states it in terms of objectives, that the objective is to simplify that and give the manager the opportunity to control through costs rather than the flow of new dollars.

Senator COTTON. What guide does the Committee on Appropriations have under that kind of system in making the overall appropriation for maintenance and operation of the Army, if it is one vast lump sum, without knowing how it is going to be divided between bases, how it is going to be divided as between food supplies and travel and telephone and what not?

How on earth can the Committee on Appropriations have any idea of what the Secretary of Defense is asking for, or whether it is reasonable or unreasonable?

Mr. CAMPBELL. I would like to answer that, Senator, by saying that in the justifications the agencies will describe what they have in mind.

Senator COTTON. In the justifications, using your own term, they will splinter these appropriations to a certain extent in justifying their requests?

But after they have gotten a lump sum, then so long as they keep within their lump sum, they can juggle it about to suit themselves and between bases or as between different expenses; is that right?

Mr. CAMPBELL. As they do now.

That is the present system.

Senator COTTON. Just one thing I wanted to clear my mind on which I think is the real core of this thing.

On page 5 of your very good statement you say:

> Because of these inherent factors in the operations involved, cost budgets, teamed with appropriations on an accrued expenditure basis, would require a type of continuing budget presentation that would bring out the adequacy of management planning or the lack of it and would give the Congress an opportunity to have a voice in setting the level of operations from year to year.

Perhaps this is not a good example but it is one that keeps clinging to my mind. Take the carrier we were talking about a few minutes ago with the Bureau of the Budget: Suppose that Congress appropriates under the present system, $160 million to complete a carrier in 5 or 6 years, and suppose at the end of 2 years when a portion of this money has been spent some new development in naval warfare which the Secretary in the Defense Department could not foresee develops, which makes this carrier entirely inappropriate and ineffective.

They have to change the engineering, change the designing, change the planning, perhaps build a new and improved type that costs more.

Under the present system, the question in my mind is what happens?

Does the Department of Defense immediately come back to the Congress and tell the Congress of this development and ask for a new, extended, overall appropriation to carry them through, or does it go ahead on the new type until it has exhausted the $160 million, and then come back and tell what happened and get more?

Which happens under the present system?

Mr. CAMPBELL. Under the present system I believe the agency would go forward with its plan of revising or working on a new type of product, whatever it was.

In that connection I heard the discussion which you had with the Bureau of the Budget, and I think it might be pointed out all our Government contracts usually have termination and cancellation provisions.

Senator COTTON. You are now talking about the effect on the contractor?

Mr. CAMPBELL. Yes, so in a changeover, as far as the contractor is concerned, he is covered under the present proposal just as well as he is covered today.

Senator COTTON. Right now, sticking to this point of mine, under the present system nobody on Capitol Hill would know until the $160 million was spent that they had to change to a new type of carrier and that the project had to be changed. Is that right?

Mr. CAMPBELL. I think they might not know, but I think, depending on the magnitude of the change, certain committees might be well aware of the revision of a plan.

Senator COTTON. Now suppose that it was the fault of whoever was in charge of this work and this planning in the Defense Department.

Of course this is purely hypothetical; I am not reflecting on the Defense Department or suggesting that that would be the case.

Suppose they should have known that it was going to be a waste to build the old type carrier when a new type one would be required and it was their mistake, it should have been foreseen.

Now under the present system that could be well concealed. Is that right?

Mr. CAMPBELL. I think that is a fair statement.

Senator COTTON. But referring to your statement on page 5, if the present bill is passed, they would immediately have to come up, the Bureau of the Budget, perhaps your agency and certainly the committees of Congress would immediately have to be notified that they had gotten off on the wrong foot and that they had spent money in designing and planning and styling and obsolescent or obsolete carrier; is that right?

Mr. CAMPBELL. Precisely correct.

Senator COTTON. And is that the real guts of what this bill will do in permitting the President and the Congress, your department and the Bureau of the Budget, to keep their finger at all times more completely on what is going on and whether we have efficiency or inefficency, waste in various agencies?

Mr. CAMPBELL. It will go a long way toward curing the present problem.

Senator COTTON. And does that example show that on page 5?

Mr. CAMPBELL. Yes, sir.

Senator COTTON. You were saying under the new system because of cancellation clauses in present contracts this new system would not make more insecure or uncertain the position of corporations contracting with the Government?

Mr. CAMPBELL. No, Senator, I feel very strongly about that. And you may recall in the Hoover Commission's report of June 1955 the members making up that task force were men almost entirely of industry. They were Mr. Dudley Browne of Lockheed Aircraft; Mr. Humphreys, chairman of the board of United States Rubber Co., and Mr. Christian Jarchow, who was at that time executive vice president of the International Harvester Co., among others, and there was no suggestion from them that this would in any way make them timid about engaging in Government contracts.

Senator COTTON. Just one more question.

You heard me inquiring of the Bureau of the Budget about the time that it would take, if this bill becomes the law, the time it would take to really get into operation and how long it would take to take up the slack in this huge sum of $48 billion of carryover appropriations.

What would be your comment as to how long it would take to actually get this system into operation, and what would happen with that large sum of holdover?

Mr. CAMPBELL. As I see your question, there are two parts to it.

First, what happens to the unexpended balances with which we are concerned.

Senator COTTON. That is right.

Mr. CAMPBELL. Well, there would be no such unexpended balances, and as a bureau or department or agency or whatever the size may be converted, there would be no need for such unexpended balance.

Senator COTTON. At present I am informed there is some $48 billion unexpended balances in the Government being carried over.

Now the passage of this bill is not going to cancel them?

Mr. CAMPBELL. The passage of the bill will not; that is true.

Senator COTTON. You will only cancel them piecemeal as you put into practice on the new bookkeeping basis department by department and agency by agency?

Then as you put each agency under this system, then whatever carry-over, unexpended balance they have then is canceled?

Mr. CAMPBELL. Reverts to the Treasury.

Senator COTTON. That is right?

Mr. CAMPBELL. That is right.

Senator COTTON. How long in your opinion would it take, acting in that way and applying it piecemeal, to cancel all of the unexpended balances being carried over?

Mr. CAMPBELL. Mr. Brasfield has given this problem considerable thought, and perhaps he might answer your question fully.

Mr. BRASFIELD. It would seem to us that those agencies that are already well on the way in having an accrual accounting system and a good basis for their costs, the conversion of those could start perhaps in the next year, the following year, and something like 5 years as a goal to bring them all into shape where they are ready for conversion would seem reasonable to us.

Senator COTTON. When you say all, do you mean those that have started?

Mr. BRASFIELD. No, I would convert them as they are ready. There is no reason why those that are ready cannot be converted just as fast as the Congress desires to do so.

For example, such as the Atomic Energy Commission that already has its operations on a cost budget, its construction budget could be put on a cost basis.

I am sure that they have the costs that are necessary to do it.

The same thing would be true in a number of other agencies.

In other words, the greater portion of this it would seem reasonable to us to set a goal of 5 years to get it done.

Senator COTTON. Let's take the biggest one of them all, and I don't mean to keep appearing to pick on the Defense Department, but that is the big one.

What is going to happen there and how long would it take?

Mr. BRASFIELD. They have done a great deal of work already in setting up their inventories under dollar control, which would be a necessary groundwork.

Perhaps their most difficult problem would be to work out their problems in programing, to see that they have the type of firm programing that would lend itself to a cost basis of accounting in the followthrough that this legislation contemplates.

Now that again would have to be applied to each specific area of procurement, maintenance and operation research.

The 5 years it seems to us would be a reasonable target, and obviously Defense would be the last one probably to be entirely completed.

Senator COTTON. You think in 5 years you would have the whole Government under this new system, and your agency, the Bureau of the Budget and the committees of the Congress would then have this added information and added control fully in gear you think in about 5 years?

Mr. BRASFIELD. We think that is a reasonable target to set as an objective.

Senator COTTON. Thank you.

Senator KENNEDY. Senator Martin?

Senator MARTIN. Your statement on page 9 reads:

> The value and utility of cost-based budgets are certainly not dependent upon the application of depreciation concepts to military hardware.

By that do you mean we would have to go on ignoring the application of depreciation of military hardware?

Am I clear on that approach, or would you struggle with it?

Mr. CAMPBELL. Senator, I think we would have to take each problem as it came to us and decide to what extent the agency would have to maintain property records for depreciation purposes.

The property records are there but whether or not a battleship would be depreciated would have to depend on consideration at that time.

My point in mentioning this was to get across that we have no idea of setting up a vast depreciation computation system which would be of no value, because it would not help you in any way in attempting to follow a program in, say, Interior or Defense or another agency.

Senator MARTIN. You would not attempt to draw any line as to how far we should expect to go in applying depreciation?

Mr. CAMPBELL. I don't think that we could right now. I think that we would have to face the problem as we come to it in each bureau in each part of the Government.

Senator MARTIN. Apparently we don't want to expect too much.

Mr. CAMPBELL. We don't want to expect too much and I don't think that you should say that we want all property records set up for the Government and that we want depreciation computed precisely on all property in the Government because I think the cost of doing that kind of a job in some cases might be so expensive, it would not be worth it to you.

Senator MARTIN. If you don't expect too much on that point, I am sure we won't insist on your going too far.

Mr. CAMPBELL. We have no idea of that.

Senator MARTIN. Now there is one point listed in the purposes of this bill, that the remaining balances be transferred to a single account at the end of each fiscal year.

That is one of the purposes of the pending bill, but I am not quite clear as to the application of that, whether that is to blend them together in, say, the Defense Department as one whole, or does it intend to go beyond that?

Mr. CAMPBELL. Senator Martin, Mr. Keller handles that sort of thing in my office.

Senator MARTIN. I am just asking for information.

Mr. CAMPBELL. That is rather a legal question, and I would rather have him answer it.

Mr. KELLER. Senator, what is contemplated by that section, is that the remaining balance of the appropriation which would be

needed to take care of goods delivered in the budget year but not paid for would be carried forward into the new appropriation, but not the entire unspent balance.

Senator MARTIN. The remaining balance is transferred to a single account.

The excess appropriations would lapse. And the remaining balances are to be transferred to a single account at the end of each fiscal year in each department or each agency?

Mr. KELLER. That is right. They would follow the general appropriation structure; yes, sir.

Senator MARTIN. And the Department of Defense, you would expect that to be in one?

Mr. KELLER. No, sir; that would have to be broken down.

Senator MARTIN. The Defense Department would have to be broken down into smaller categories?

Mr. KELLER. Yes, sir; considerably.

Mr. BRASFIELD. I think generally speaking it would be this, that you would carry over into the current appropriation the amount required to pay the accounts payable at the end of the year, and that it would be logical to do that within each appropriation.

In other words, the current appropriation would have in it the money you are going to spend this year and the amount for the accounts payable for goods delivered and services that had been rendered before the end of the prior year, but had not actually been paid for, so it would be a relatively small amount as compared with present type of carryover balance even of the obligated balance, because it would only be where the services had been rendered or the goods had been received, but the invoice had not been received and the payment had not been made.

Senator MARTIN. I suppose it is the size of the Defense Department budget and program that would give us the principal test of the practical application of all these rules or suggested improvements.

The Defense Department would certainly test us to the limit on the application of the entire program.

How complete is our present accounting system for the Defense Department? Do we have a very complete picture in terms of what we are picturing in this bill, or does this call for some far-reaching changes in their accounting?

Mr. BRASFIELD. It would be difficult to give any categorical answer to that. They have made great strides in setting up their inventories, which is essential for this purpose. There is a great deal to be done yet in setting up properties. With those two foundations laid, the problem in Defense would not be far different than anywhere else. In other words, their spending of money for procurement, for salaries, military pay, the pay part of it would not be substantially different.

It is in the procurement area where this would apply particularly, and to the extent they have their inventories already set up, dollarwise, they would be ready for it. To the extent those inventories are not under control, they would have to do additional work.

Now they have also in some of their industrial installations capitalized the equipment and have the data to capitalize the property, and that would all be a significant step forward in laying the foundation for this.

Senator MARTIN. I have in mind that the Defense Department has made some tremendous strides forward in their fiscal accounting. There is nothing in this bill that will disrupt the system very much from what they are now trying to do?

Mr. BRASFIELD. In our opinion it would give them the opportunity to integrate the improvements they have made in a tighter, closer knit accounting system.

Senator MARTIN. For one I don't want to bog down the Defense Department by any radical change in accounting, and yet I want efficiency and further improvement everywhere we can get it. Defense is one place where I don't want us to go so far in our reform that we forget the main objective of Defense.

Mr. CAMPBELL. Senator Martin, our feeling in this is that it is going to be a great help to the agencies.

We have no desire to suggest efficiency for efficiency's sake or anythink like that, but we are attempting to propose from our point of view an improvement which I think will be appreciated in time.

Senator MARTIN. I have had no complaint from them at all and I believe they are coming up as a witness later in these hearings.

I need a very real review of Defense accounting because I have not been on that committee for 10 years and a lot has happened in that period.

I just don't want to disrupt some of the tremendous changes that are taking place in the field of Defense in any way. I want to listen to Defense witnesses very carefully. I understand they are very much in accord with the general approach here, but I want to know whether we have anything here that should be watched and that we not exact something from them that may impede the efficiency of Defense rather than help. That is all.

Senator KENNEDY. I understand this sample is how the new budget would look under the new system that would be put into effect, is that right?

Mr. BRASFIELD. That is an illustration worked up for your staff.

Senator KENNEDY. I would like to have this placed in the record at this point.

(The document is as follows:)

Construction and rehabilitation, Bureau of Reclamation (partial presentation, covering region 1)

Costs in place	Total estimate	To June 30, 1954	1955 actual	1956 estimate	1957 estimate	Cost required to complete
13. Michaud Flats project, Idaho	$4,877,700	$129,800	$43,400	$507,000	$2,472,000	$1,725,500
14. Minidoka project, North side pumping division, Idaho	10,514,000	1,962,459	1,605,354	2,557,371	2,771,113	1,617,703
15. Palisades project, Idaho	67,700,000	29,042,319	12,413,027	12,100,500	6,317,939	7,826,215
20. Deschutes project, North unit, Oregon	14,543,000	12,172,953	163,849	278,613	1,035,000	892,585
21. Rogue River project, Talent division, Oregon	19,932,000	436,341	85,596	150,000	2,335,000	16,925,063
24. Chief Joseph Dam project, Foster Creek division, Washington	4,757,200	40,000	50,000	300,300	1,831,300	2,535,600
25. Columbia Basin project, Washington	753,362,000	466,064,000	12,175,454	13,699,000	13,698,000	247,725,546
26. Yakima project, Kennewick division, Washington	13,636,700	4,555,429	4,562,992	3,178,501	1,339,778	----------
27. Yakima project, Roza division, Washington	22,092,431	18,351,176	18,363	472,161	1,719,000	1,531,731
30. Drainage and minor construction	150,180,522	148,653,235	1,286,927	240,360	----------	----------
31. Rehabilitation and betterment of existing projects	6,409,397	573,526	119,535	829,368	1,406,468	3,480,500
Total costs in place	1,068,004,950	681,981,238	32,524,497	34,313,174	34,925,598	284,260,443
Increase or decrease (—) in resources:						
Inventories	----------	----------	----------	----------	—26,997	----------
Equipment and service facilities (less depreciation charged to cost)	----------	----------	----------	----------	—504,240	----------
Property transferred to other activities without charge	----------	----------	----------	----------	388,908	----------
Accrued expenditures (appropriation request)	----------	----------	----------	----------	34,783,269	----------

Available resources

	Stores inventories	Equipment and service facilities [1]
June 30, 1954	$1,418,777	$3,677,343
June 30, 1955	1,052,070	3,051,481
June 30, 1956 (estimated)	583,213	2,573,574
June 30, 1957 (estimated)	556,216	2,069,334

[1] Equipment and service facilities are stated at cost less depreciation.

Palisades project, Idaho

Program item	Quantity	Unit	Estimated total costs	Total to June 30, 1953	Fiscal years					Balance to complete	Estimated completion date (calendar year)
					1954	1955	1956	1957	1958		
CONSTRUCTION COSTS											
Palisades Dam and Reservoir	1, 401, 800	Acre-feet	$35, 282, 000	$7, 791, 717	$9, 002, 436	$7, 038, 832	$5, 295, 000	$2, 446, 000	$3, 708, 015		1957
Land and rights			2, 090, 000	375, 025	1, 045, 397	557, 364			112, 214		1956 initial
Relocation of existing property			6, 920, 000	3, 309, 043	1, 991, 208	759, 556	416, 000	205, 000	239, 193		1957
Clearing lands			536, 000	179, 211	17, 034	90, 510	177, 000	30, 000	42, 245		1957
Palisades powerplant	114, 000	Kilowatt	17, 026, 000	1, 066, 892	2, 835, 574	3, 714, 319	4, 138, 000	2, 247, 200	3, 024, 015		1957
Palisades switchyard			1, 865, 000	51, 394	1, 436	20, 748	810, 000	587, 000	124, 422	$270, 000	1957
Palisades-Goshen transmission No. 1	51	Mile	1, 000, 000	811, 722	13, 145	21, 606	79, 000	35, 000	39, 527		1957
Palisades-Goshen transmission No. 2 and Goshen terminal facilities.	56	do	1, 708, 000	10, 322	770	47, 024	1, 169, 000	290, 000	190, 884		1957
Carrier-current communication system			40, 000				5, 000	35, 000			
General property			640, 000	488, 153	51, 840	4, 307	10, 000	10, 000	75, 700		
Fish-wildlife and recreational facilities			593, 000			158, 761	1, 500	432, 739			
Total construction costs			67, 700, 000	14, 083, 479	14, 958, 840	12, 413, 027	12, 100, 500	6, 317, 939	7, 556, 215	270, 000	
Original estimate (1950)			76, 601, 000	13, 586, 638	12, 002, 203	14, 900, 000	15, 374, 855	13, 718, 000	7, 019, 304		1958
Increase or (decrease)			(8, 901, 000)	496, 841	2, 956, 637	(2, 486, 973)	(3, 274, 355)	(7, 400, 061)	536, 911	270, 000	

Palisades project, Idaho

Allocation of total estimated costs:		
Reimbursable costs:		
Irrigation:		
By water users	$9,300,000	
By power revenues	9,290,200	
Subtotal, irrigation	18,590,200	
Power	25,783,800	
Total, reimbursable costs		$44,374,000
Nonreimbursable costs:		
Flood control	22,733,000	
Fish and wildlife and recreation	593,000	
Total, nonreimbursable costs		23,326,000
Total estimated costs		67,700,000

Senator KENNEDY. As I understand it, you are familiar with this sample?

Mr. BRASFIELD. I am generally.

Senator KENNEDY. Under the present system we would only have three columns, is that right?

We would have 1956 estimate and 1957 estimate, is that correct?

Mr. BRASFIELD. Ordinarily there are 2 years actual in the estimate, 1 year fully actual, 1 year partially completed, and then the budget year, that is right.

Senator KENNEDY. So that now what we would have, first we would have that total estimate, which we do not have now?

Mr. BRASFIELD. That is right.

Senator KENNEDY. Then we would have to judge 1954.

That is the amount expended. Would we have that under the present system?

Mr. BRASFIELD. Not under the present system in the budget document itself.

Senator KENNEDY. 1955 actual we would not have either, would we?

Mr. BRASFIELD. You would have it on an obligation basis rather than cost.

Senator KENNEDY. And would we have the 1956 estimate?

Mr. BRASFIELD. That is right, in the 1957 budget.

Senator KENNEDY. Would we have the cost required to complete the program?

Mr. BRASFIELD. We would not have that.

Senator KENNEDY. You could figure that without any trouble?

Mr. BRASFIELD. It would be particularly applicable to this type of illustration where it is a long-term program.

Senator KENNEDY. Now, on page 2, this business of stores inventories, equipment, and service facilities, would that be available?

Mr. BRASFIELD. It would be available, but it is not reflected in the budget document in the way proposed here.

Senator KENNEDY. And this example of the Palisades project, all those figures, I suppose they could be available under the present system, but it would require special accounting to do it?

Mr. BRASFIELD. No; this is an illustration of accounting that is already in place in the Bureau of Reclamation. It is now included in the justifications rather than being in the budget itself.

Senator KENNEDY. What would be the change?

Mr. BRASFIELD. The difference would be the basis on which the request for appropriation is presented, i. e., accrued expenditures as

opposed to obligations, the data on accrued expenditures would tie right in to the cost data shown in this schedule.

Senator KENNEDY. That is fine.

We want to thank you very much, Mr. Campbell.

I hope it will be possible, perhaps, for at least a representative of your agency as well as the Bureau of the Budget to be here on Wednesday when the Defense Department testifies. We want to thank you very much.

We appreciate also the presence of Mr. Keller and Mr. Brasfield.

The next witness will be Mr. William T. Heffelfinger, Fiscal Assistant Secretary of the Department of the Treasury.

STATEMENT OF WILLIAM T. HEFFELFINGER, FISCAL ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

Mr. HEFFELFINGER. Good morning, Mr. Chairman.

I am here on behalf of Secretary Humphrey. I am William Heffelfinger, Fiscal Assistant Secretary.

I have here a letter from Secretary Humphrey to the chairman of the subcommittee, which I would like to read for the record.

Senator KENNEDY. Will you proceed?

Mr. HEFFELFINGER. The letter is dated June 1 and is addressed:

DEAR SENATOR KENNEDY: Previous engagements prevent my appearance at the hearings on June 4 before your subcommittee on S. 3897, a bill to improve Government budgeting and accounting methods and procedures. However, the views of the Treasury in support of this bill (committee print), which would give effect to certain recommendations contained in the Report on Budgeting and Accounting of the Commission on Organization of the Executive Branch of the Government, were furnished to you by Acting Secretary Burgess in his letter of May 28.

The Fiscal Assistant Secretary will be available at the hearings to furnish any information you desire concerning Treasury activities affected by the bill.

I would like to take this opportunity to say that I support completely the objectives of the Hoover Commission recommendations on budgeting and accounting. The bill, S. 3897, will provide the legislative authority to enable the executive agencies to move forward in a vigorous program to improve our budgetary and accounting process. This will be a big task and one that cannot be accomplished in a short time.

With support from the Congress, the ultimate economies and increased efficiency in operations that these improvements will produce, I am sure, will amply justify all of our efforts.

I commend the work which your subcommittee has done in this area.

Sincerely yours,

G. M. HUMPHREY,
Secretary of the Treasury.

Senator KENNEDY. Thank you.

Do you have any additional statement?

Mr. HEFFELFINGER. I have no additional comment, sir.

Senator KENNEDY. Senator Martin?

Senator MARTIN. No questions.

Senator KENNEDY. As I understand it, the Treasury is supporting this bill, sir?

Mr. HEFFELFINGER. We are supporting it completely.

Senator KENNEDY. Thank you very much.

Mr. HEFFELFINGER. Thank you, sir.

Senator KENNEDY. Thank you, gentlemen.

The committee will recess until tomorrow.

(Whereupon, at 11:45 a. m., the committee was recessed, to reconvene at 10 a. m. Tuesday, June 5, 1956.)

BUDGETING AND ACCOUNTING

TUESDAY, JUNE 5, 1956

United States Senate,
Subcommittee on Reorganization of the
Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to recess, at 10 a. m., in room 457 Senate Office Building, Senator John F. Kennedy (chairman of the subcommittee) presiding.

Present: Senator John F. Kennedy, Democrat, Massachusetts; Senator Norris Cotton, Republican, New Hampshire; and Senator Thomas E. Martin, Republican, Iowa.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; and Mrs. Kathryn M. Keeney, clerical assistant.

Senator Kennedy. The subcommittee will come to order.

Hearings will be resumed this morning upon S. 3897, which revises the Government's budgeting, accounting, and appropriations procedures.

Witnesses who testified yesterday, in addition to Senators Payne, Barrett, and Bennett, all cosponsors of S. 3897, included the Director of the Budget, the Comptroller General of the United States, and a representative of the Secretary of the Treasury, all of whom endorsed the bill.

The first witness today will be Dr. Robert N. Anthony, associate professor, Harvard Graduate School of Business Administration, Harvard University, Cambridge, Mass.

Dr. Anthony is a member of the American Accounting Association, th American Statistical Association, and the National Association of Cost Accountants. He has served also as a consultant to the Secretary of Defense on budgeting, accounting and financial management.

Dr. Anthony, will you come forward? We are very glad to have you here. You may proceed in any way that is satisfactory to you.

STATEMENT OF DR. ROBERT N. ANTHONY, ASSOCIATE PROFESSOR, HARVARD GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, HARVARD UNIVERSITY

Dr. Anthony. If you would like I would read this statement and you may feel free to break in at any time you wish.

Senator Kennedy. Fine.

Dr. Anthony. My experience in the Government has been primarily in the military organizations and therefore what I will say today relates primarily to the Military Establishment.

In discussing the problem of controlling any organization—business or governmental—it is useful to consider separately two categories of spending: (1) Capital expenditures, and (2) operating expenses.

The planning and control problems associated with each of these two categories are quite different from one another, and different techniques are required for their solution.

Capital expenditures relate to what the Hoover Commission calls long lead time items, such as tanks, ships, aircraft, land, and buildings. Although some people apparently believe that S. 3897 will result in a fundamental change in congressional control over capital expenditures, I personally do not expect that the bill will, as a practical matter, result in any significant change. Control over capital expenditures involves two principal steps: (1) Approval of the proposed program and of its total estimated cost, and (2) interim checkups on spending during the progress of the work. Both these steps can be accomplished, I think, within the framework either of existing legislation or of S. 3897.

With respect to the operating expense area, I think the bill represents another significant forward step in the evolution of governmental budgeting, accounting, and control practices. For the first time it will be possible for the Government to build an integrated budgeting, accounting, and control mechanism that corresponds to the system that private business has found to be so useful.

At this point, it may be well to consider the extent to which the experience of business is applicable to problems of Government.

The statement is often made that since the powerful stimulus of the profit motive under which business operates is not present in the Government, financial control in Government must necessarily be different from (and, by implication, inferior to) financial control in business. To me, this difference is not as important as it is sometimes made out to be. It is a fact that an important overall objective of a business is to make a profit, but it is also a fact that in a large business only the top management, or the management of an independent division, can view its work in terms of this overall objective.

Most of the operating people must have narrower objectives. The sales people seek such objectives as volume, a satisfactory margin, and control over selling costs. The manufacturing people are interested in such things as product quality, spoilage, and production costs.

Research, maintenance, personnel, finance, and other staff units each have their own job to do. Profit results from the combined efforts of all these separate groups, and cannot be related directly to any one of them. Furthermore, within the major groups, there are many subunits, each with a supervisor who is responsible for doing the best job he can in his own limited area. These areas are far removed from the overall profit figure that appears as the last item on the income statement.

No control system can include all, or even necessarily the most important, aspects of the performance of the heads of these operating units. Matters such as morale, the quality of the product, the development of new leaders, or customer satisfaction, are not easily reducible to quantitative terms. But to the extent that cost incurred is a factor in appraising performance, business has found it valuable to prepare

budgets that describe the spending objectives of each of these operating units, or responsibility centers as they are called, and to compare actual spending with these budgets.

I think that the situation in Government is similar in many important respects. The objectives of the various operating agencies and the money that can be spent for achieving these objectives, are prescribed by the Congress. The President and top management of the agencies have an overall responsibility for the way in which this money is spent, but basic control over spending is achieved primarily at the operating level, that is, at wings, bases, ships, field installations, and other units that correspond to the responsibility centers in business.

The problem of control is undoubtedly more difficult in Government than in business because in most areas the Government has no competitior whose performance can be used as a standard of comparison.

Furthermore, the end product of Government work is usually intangible (a service rendered the public, or "readiness to defend against an aggressor") which is more difficult to measure than a tangible manufactured product. Despite these differences, the control problem in both organizations is basically similar.

Both Government and business organizations consist of people who have a job to do, and the control problem is to motivate these people to do their job as efficiently and economically as possible.

In business, the cost figures used for controlling a responsibility center are the cost of resources consumed by the responsibility center and controllable by the head thereof. The budgets for individual units are expressed in such terms, and these individual budgets are combined into an overall budget for the company.

In the Government, on the other hand, budgeting and congressional control over spending is focused on obligations. The word "obligations" in the Government corresponds approximately to purchase orders or contracts placed as these terms are used in private business. The Government concept of "obligation control" differs from the business concept of "cost control" as to both time and place.

The difference in timing is, obviously, that many of the obligations in 1 year represent purchases of goods that will be consumed in the next year, or even 2 or 3 years later.

In other words, the obligations of 1 year are not necessarily related to the work done to carry out the programs authorized for that year.

The difference in place arises because, by and large, the people who are responsible for procurement are not the people who are responsible for carrying out the programs for which the items will be procured.

Air Materiel Command, for example, purchases most of the materiel for the Air Force, but the actual consumption of this materiel is the responsibility of bases and wings operated by Strategic Air Command, Air Defense Command, and other operating units of the Air Force.

Incidentally, the last figure I heard is that approximately 15 percent of the costs of an Air Force wing arise from funds allotted to the wing; the other 85 percent represent resources obligated by someone outside the wing organization.

Thus, when the Congress specifies amounts that can be obligated in a given fiscal year, it is not, except indirectly, specifying amounts that

can be consumed in that year, nor is it specifying the operating units that are responsible for consumption. The notion of "obligations" is so far removed, in time and place, from actual consumption that obligations are not even recorded on the formal accounting records of private business, and they generally are a relatively insignificant part of a business' control system.

Because of the limitations of a system based on obligations, Government operating agencies have devised accounting systems for management use that focus on the control of spending at the operating level. These systems are useful; but since they are necessarily either divorced from or only loosely related to the appropriation accounting system, they lead to a dual control structure.

Any attempt to control the same activity with two separate systems is likely to result in confusion and frustration. Furthermore, a management control system that is divorced from congressional appropriation loses the powerful motivating force that almost automatically accompanies a system that is tied to control of the purse strings.

S. 3897 shifts the focus of congressional appropriations away from the obligation basis and onto an accrued expenditure basis; that is, it is proposed that appropriations will specifiy limits on the goods and services that are received during a fiscal year.

It does not relate appropriations directly to consumption in a given year, but it goes far enough so that a reconciliation is entirely feasible. For operating items, as distinguished from capital expenditures, the difference between receipts and consumption is precisely measured by changes in working capital, primarily by changes in inventory.

If consumption exceeds receipts during a given year, this means that the agency has dipped into its inventory; and if receipts exceed consumption, this means that inventory has been built up.

It follows that the "cost-based budgets" described in the bill will differ from the amount of funds that the agency requires only to the extent that variation in inventory and other working capital items are planned during the year. Such proposed variations can be set forth clearly in the budget justifications.

The accrual accounting system proposed in the bill is a necessary mechanical device for implementing the underlying objective of focusing more closely on consumption. The transition to a new accounting system always involves problems, but the task of making the shift should be considerably easier now than it would have been 10 years ago because of the tremendous progress that the operating agencies have made in developing the management accounting systems I mentioned earlier. These systems resemble closely the system that is proposed by the bill.

After the transition has been completed, it is reasonable to expect that the cost of budgeting and accounting in these agencies will be considerably less than it is now, simply because the present system of dual controls will be replaced by a single system that can be used both for congressional and for agency management purposes.

There are two matters of detail on which I would like to make brief comment.

With one exception, all the items in the bill seem to me to aim in the direction of making congressional appropriations more closely related to actual spending, and this is good. The exception is one

phrase in the last section of the bill, which states that operating units should be financed, "at the highest practical level."

I agree that control is hindered if each operating unit has to cope with a mass of separate allotments, and certainly control would be strengthened if each unit was told the total amount it could spend to carry out its mission. But the closer this control comes to the point of actual operations, the better.

Therefore, I think the better philosophy is to finance at the lowest practical level rather than the highest practical level. Actually I see no gain to be achieved in stating what the level should be. I suggest the simplest solution is to delete the phrase which appears on page 5, lines 17 and 18.

A second matter of detail concerns depreciation. An accrual accounting system, as the term is used in business, includes a mechanism for the depreciation of fixed assets. I do not believe that the framers of the bill intended that a depreciation mechanism should be used generally in Government accounting, and in order to avoid possible misunderstanding, I suggest that this be stated explicitly, perhaps in the committee report.

It should be apparent from the above that I think eventually the Congress should go one step further, and appropriate funds to cover the consumption of the goods and services necessary to carry out approved programs during a fiscal year. Such an appropriation would match exactly the cost-based budget mentioned on page 3, line 21 et seq. A separate appropriation (or separate subdivision of the main appropriation) would be made, if necessary to provide for increases (or decreases) in the level of inventory and other working capital items. This would considerably increase the amount of control that Congress would exercise over the executive agencies because such a system provides separately for (1) control over consumption and (2) control over inventory accumulation. There would therefore be two points of control, as contrasted with a single control point—accrued expenditures—which is the focus of the bill, or the single control point—obligations—which is the focus in the system under which we now operate.

Actually, the increasing use of stock funds and other working capital devices is a step in this same direction, and the expanded use of such devices should be encouraged. The use of working capital funds increases congressional control over the operating agencies, for by their use the Congress can control both (1) the rate of inventory accumulation, by its limit on the size of the fund; and (2) consumption, by its limit on spending.

One other step I think is necessary. As I have indicated, the problem of controlling capital acquisitions is quite different from the problem of controlling operating expenses, and my discussion has been limited to the latter. I think it would be desirable to spell out, more clearly than is now done, either by legislation or by committee action, what the line is between these two categories. No attempt to do so is made in this bill, and this may lead to problems of administration unless your committee or the Appropriation Committee make clear what the distinction should be in practice.

To summarize, in my opinion,

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1. The bill will have no substantial effect, one way or the other, on the control of capital expenditures.

2. The bill can result in a significant improvement in the control of operating expenses because:

(*a*) It focuses on the control of goods and services received in a given year, rather than on obligations.

(*b*) It encourages the development of operating costs which is of major interest to the Congress in considering proposed programs, or the job to be done in a given year.

(*c*) Since consumption, plus or minus changes in working capital, equals receipts, the bill provides an easy way of reconciling operating costs with appropriated funds.

3. I think that the problem of making a transition to accrual accounting is facilitated because of the work that many agencies have done to develop internal accounting systems. Eventually the bill should result in a reduction of accounting costs in these agencies.

4. I think the phrase "at the highest practical level," (p. 5, lines 17 and 18) should be deleted.

5. I think there should be explicit mention of the fact that a depreciation mechanism is not contemplated.

6. I think at some future time, the Congress should consider making appropriations for operating expenses in terms of goods and services consumed.

7. And I think finally a clear distinction should be made, either by legislation or by administrative action, between capital expenditures and operating expenses.

Thank you.

Senator KENNEDY. Doctor, I think the statement is very helpful. On page 5, where you say under next steps:

> It should be apparent from the above that I think eventually the Congress should go one step further and appropriate funds to cover the consumption of the goods and services necessary to carry out approved programs during a fiscal year.

Do you feel that after this legislation has gone into effect and it has been implemented and all the agencies may take 5 or 10 years, then you would consider this step not at the present time?

Dr. ANTHONY. No, sir, I am not recommending this at the present time. I think we should proceed one step at a time. I think actually we may automatically get to that point without additional legislation if the use of working capital funds is pushed quite heavily, because the more working capital funds are used the more appropriations do relate to actual consumption.

Senator KENNEDY. On top of page 4, you say at the beginning "Because of the limitations." I am not sure I understand what you have in mind where you say: "Because of the limitations of a system based on obligations."

I understand the first part of it but then it says:

> Since they are necessarily either divorced from or only loosely related to the appropriation accounting system, they lead to a dual control structure.

I wonder if you would explain that?

Dr. ANTHONY. Yes, sir. The present obligation system, as I have indicated, focuses on contracts awarded and therefore the control is focused on the people who are doing the purchasing and at the time

the purchasing takes place. The management of an agency wants to control costs as they are incurred and the management therefore is not primarily interested in the purchasing. It is primarily interested in people out in the field and what they are spending, and it wants to keep that spending as economical and as efficient as possible. So the management of the agency has to set up—has set up actually in many of them in recent years—systems which focus on what do the wings and ships and installations spend to do the jobs that the agencies have assigned them. And that spending, as I have indicated, differs considerably from obligations.

The two can hardly be reconciled. Systems have been proposed for reconciling the two, but in my opinion they are extremely cumbersome systems involving a tremendous mass of paperwork.

Senator KENNEDY. Could you make it a little clearer? Say that the obligations are developed by an agency to buy a hundred planes of a certain type. The Congress appropriates the money. That is an obligation. How would you carry that through as far as this latter part you are talking about?

Would you——

Dr. ANTHONY. Would you permit me to change the example to an operating item? Everything I am talking about has to do with the operating expenses and not the acquisition of aircraft.

Senator KENNEDY. Yes.

Dr. ANTHONY. Let's suppose the Congress appropriates money for maintenance and operations and because Air Materiel Command is going to purchase supplies for that program, a portion of that money is sent to Air Materiel Command. Air Materiel Command buys brooms with that money. At that point, the appropriation is charged with the purchase of the brooms and the appropriation will never be charged again. The appropriation is only charged once of course. People in the operating agencies have no particular reason, as far as any appropriation control goes, to worry about the economical use of brooms.

And because of that the management of agencies has had to develop systems quite divorced from appropriations that focus on how many brooms are being used, so as to try to keep the consumption of them down to a reasonable level. Do I make the distinction clear?

Senator KENNEDY. Yes. Then you go on to say:

> Any attempt to control the same activity with two separate systems is likely to result in confusion and frustration. Furthermore, a management-control system that is divorced from congressional appropriation—

I think you could just expand it. I am not sure I understand your whole paragraph.

Dr. ANTHONY. Let me try it another way.

Senator KENNEDY. You go ahead unless Senator Cotton has some questions.

Senator COTTON. No, I don't.

Dr. ANTHONY. Let me try to illustrate it at the base level.

Senator KENNEDY. You will have to go slowly with us.

Senator COTTON. I fell off the wagon on his brooms. You started in with a proposition of appropriation to purchase a hundred bombers.

Senator KENNEDY. Then we changed it to brooms. Why did you feel it was necessary to change it? Tell us why you have to change it from bombers to brooms again?

Senator COTTON. Let me ask you this, so I can understand. Did you mean that if the Air Force has a substantial appropriation to purchase bombers, that part of that appropriation may be infinitesimal parts but parts are used for supplies of people who are engaged in the purchasing, the planning, the supervising, the production of those bombers; is that it?

Dr. ANTHONY. I'm sorry. I'm afraid I have thrown you off by trying to change Senator Kennedy's example. I wanted to make it clear that I was talking about operating expenses, that is things that people in the field have to spend to get the job done that they are supposed to do in the current year, and bombers are not in that category. A person in the field can't control bombers. He either has them or he does not have them.

Senator KENNEDY. Is there some control over the amount of money or resources that are consumed, is there some system used, is there some substitute for that in case of defense items?

Dr. ANTHONY. No, sir. In case of capital expenditures there is no way of controlling consumption. You don't attempt to try to do so. You attempt to control acquisition. You attempt to let the agencies acquire the fixed, capital assets that they need. You make a decision when they ask for the money whether you think they really need these items or not. Once you have them, you have them. There is nothing you can do about those assets from that point on.

Senator KENNEDY. In the case of nonmilitary items there is an attempt, if not to regulate the depreciation, to regulate the use.

Dr. ANTHONY. In the case of all consumable items it is possible for people in the field to be economical in the use of them or to be wasteful in the use of them.

Senator KENNEDY. How will that fit in with this? What we are really most concerned about is this question of the obligations and the amount of expenditures in a year of obligated money. How does this question of consumption, or depreciation or use, how does that fit into this matter?

Dr. ANTHONY. I have said that I would like to focus on the consumable items, the operating items, because I don't think you can, in the field, do much to control the capital items anyway, and with respect to the consumable items, as I indicated earlier, the last figures that I knew—and they are quite rought figures—were that an Aid Force Base can obligate about 15 percent of the consumable costs that the base commander spends. The other 85 percent he calls "free goods" because they have already been charged against some appropriation when they come to him. You therefore have this dual control system that you were asking me about earlier. The base commander is very much worried about the 15 percent because he knows that the Congress has its eye on it, because it ties right back to the obligation mechanism. It is very difficult to get him worried about the other 85 percent, although his management would like to see him worried about it, but it is difficult to get him as worried about it simply because it has already been charged against an appropriation. It is a legal expenditure and therefore he says, well, nobody can get me on this now. The ideal situation would be that there be no artificial distinction between locally obligated items and centrally procured items.

It would all be one pot. Then the man at the base would be told, "You go and do your job, and this is what we think you ought to spend to do your job." And then he is checked up on how much he actually does spend to do his job. Have I started to make this distinction clear to you?

Senator KENNEDY. Yes. Where are you taking us now? As I understand it what you are talking about now is that 15 percent. You want to apply the same system that is applied to that to the whole 100 percent and how would it be possible to do that in these matters of the 85 percent items?

Dr. ANTHONY. I am suggesting, sir, that the obligation basis can't do it because obligations are necessarily incurred at the place and the time that the goods are purchased, and for a big majority of the items this does not correspond to the time and place when they are consumed. The accured expenditure basis goes one step closer to the point of actual consumption because it talks about the receipt of goods and services.

It still is not actually consumption; that is why I suggest in 5 or 10 years you may want to go this one step further. It gets closed to it. To the extent that these inventory items are held in working capital funds, it could get exactly to it.

No one expects that the base can control 100 percent of its cost, but if we can reverse this percentage and have the base control 85 percent rather than 15, we would be in a much better situation. Because the field installation is where the money is actually spent, and that is where it actually can be saved if savings are going to be made.

Senator KENNEDY. In these Defense Department items even though they may last 2 or 3 years, they are charged over in the year they are purchased.

Dr. ANTHONY. Yes, sir; and I think they should be.

Senator KENNEDY. So that actually what is the financial control—there is no financial control. It is really just an operating control over how long they will last.

Dr. ANTHONY. That is right.

Senator KENNEDY. The accountants make no decision on that.

Dr. ANTHONY. That's right. That corresponds to the practice in private business also. I think that by and large private business tries to control these long-lived items at the time they are acquired and realizes once you have them, there is nothing you can do about them except as you indicate, to try to make them last as long as is economical.

Senator COTTON. I am still a little bit worried about my understanding. Suppose I am in charge of a base. Using your brooms for an example, if brooms are furnished to me by a central purchasing agency all I have to do is notify somebody that I am out of brooms and they send me some from a warehouse that have already been bought and paid for and charged to a general appropriation.

Dr. ANTHONY. Yes, sir; that is correct.

Senator COTTON. So that it is not going to militate against my record if I am wasteful on brooms. But if brooms are an item that I buy locally and send in the vouchers to get the money for them, then I am careful about the brooms.

Dr. ANTHONY. That is so, and if also the brooms were bought by a central agency and not charged to an appropriation and then were sent

to you, and at the time they were sent were charged against your funds, then you would also be just as careful about those brooms as if you bought them on the outside.

Senator COTTON. Your suggestion is that every time a person in charge of a base or a depot or somewhere, draws on the central supply, that he should be charged for it and then at the end of the year his record then shows up just as much as if he ordered it at the village store and sent in a voucher to pay for it.

Dr. ANTHONY. Just exactly.

Senator COTTON. We do not have that under the present system?

Dr. ANTHONY. We are starting in that direction. Working capital funds do that and to the extent that working capital funds exist we aim in that direction. I suggest that working capital funds should be extended more. That is why I used brooms as an example rather than fuel oil which is under the working capital arrangement in all the services. When you use fuel oil, you pay for it.

Senator COTTON. Your first statement was that the bill will have no substantial effect in one way or the other on the control of capital expenditures. I am wondering if that is entirely true for this reason. If under the present system an appropriation is made for the completion of a project—use for an example, the carrier, which will take 6 or 7 years to build—the appropriation is made for the whole project.

It is true that the Bureau of the Budget can and should probably and the committees of the Congress can and should follow that contract to find out if it is going according to schedule, and if it is going to be completed for the amount that has been appropriated. As a practical matter, and I can't speak for the Bureau of the Budget but I can speak for the Appropriations Committees, having served on one, you have this vast reservoir of appropriated carryover funds, and human nature being what it is, I think many times that although the whole situation has been changed, perhaps the plans for the carrier have changed and some later development has come so there it will cost more than anticipated and they are spending the money at a different rate, that information does not necessarily—I am not impugning the heads of the departments—come back to the Congress. I sometimes doubt whether it is always followed as closely by the Bureau of the Budget. But if each year the Bureau of the Budget has to include an O. K. in the appropriations for the first year, the second year and the third year and the fourth year on the progress of that project and the Appropriations Committee has to appropriate the monies for the second and third and for the fourth year for that project, isn't it a fact under that system, of necessity, there is likelihood of a little closer supervision to find out how it is going and whether it is going beyond the original stated estimate and whether the project has been changed and the plans altered. Isn't that right?

Dr. ANTHONY. I think there is a practical problem either way you do it. You have pointed out the practical problem as distinguished from a theoretical one in the present scheme. I would point out that a practical problem exists in the proposed scheme also. That is although there will be this close check on annual expenditures under the proposed bill, there is quite possibly not a good check on the total under the proposed bill so either way there will be problems.

Senator COTTON. You mean in the beginning when the appropriation is first made under the present system and the department comes in and says we want $250 million to build a carrier, $200 million, that it is a substantial sum, so that the Bureau of the Budget and the Appropriations Committee focus considerable attention on it because they know how big it is going to be but if they come in and ask for the first year's part of it, it does not focus their attention, the impact of it so much.

Dr. ANTHONY. Exactly.

Senator COTTON. But isn't it the most obvious thing to do? It seems so to me from the years I have been in Congress. When the Army engineers come in and talk about the first installment of a flood-control project, the thing it would seem the most careless legislator would do, would be to say wait a minute before we start on it, how much will it cost all told? That is much less of an objection than the objection under the present system. I don't want to belabor it, but it seems to me that your statement that the bill will not affect one way or another the control of the capital expenditures, isn't justified. I feel there is some control over that.

Dr. ANTHONY. It could work out. It might be that under the proposed bill, the Congress would pay attention to the total appropriation, and it might be that under the present way of doing things the Congress would pay attention to the annual expenditures; either way it could work out. That is all the point I am trying to make.

Senator COTTON. I understand that it could. I want to make the record clear that it just seems to me—if you differ with me I want to know it, and I still confine myself to legislators because I don't want to talk about the Bureau of the Budget because I don't know how their minds work—but there is much less likelihood of a member of the Appropriations Subcommittee failing to ask how much is this going to cost us all told when they come in for a first installment than there is for them to be a little careless in subsequent years after the appropriation has been made, they have crossed the Rubicon, and the thing is going along. It seems to me there is much more likelihood to be careless in the latter case than the first.

Dr. ANTHONY. I am not acquainted with all the facts on this, but I believe that the mechanism that is proposed here resembles the contract authorization system that was used during World War II, and I understand that that system did not work too well just because the Congress was unwilling to give close attention to the total bill and focused more on individual pieces. I don't know this; this is just what you hear about it.

Senator COTTON. If this bill and if the Hoover recommendation that led up to this bill, means the restoring of the system of contract authorization, I think it is going to meet with a stormy passage. I know some of my former associates on the House Committee on Appropriations feel very strongly about contract authorizations. They think it is a careless and dangerous method. But it is my impression that this bill is by no means a surrendering of actual appropriations for contract authorization. It is true when you make the first appropriation from the first year on a long-lead item, that you are morally and perhaps practically obligated to go through with it, but it is still a far different proposition from the old style contract

authorization where a blank check was given to the Department. Isn't that true?

Dr. ANTHONY. I hadn't assumed so. I had assumed that if the Navy came in and wanted this carrier you were going to have to tell them whether they could have the carrier or not. You could not get a shipyard or anybody to build a fifth of a carrier. They must have some kind of an expression that they can build one carrier, and this is contract authorization, call it what you will.

Senator COTTON. I will agree with that when you give them the fifth of a carrier, you have to go through. But under the old system of contract authorization, you authorized them to have the carrier and away they went and there was not, when the bill came in year by year, not only for that carrier but for other carriers, but for bombers and whatnot, under contract authorization already granted, X number of millions of dollars if it wasn't billions and it was at least easy to say that is over the dam. But this, as I understand it, means that yes, you give them the contract authorization for 5 years for the carrier. You appropriate only one-fifth but then next year they have to come back for the second fifth and you are going to know whether that carrier is one-fifth completed, whether it is going to cost more at the end than they had suggested when they asked for the first fifth. The attention of the Bureau and the Budget and the Congress is forcibly focused upon more or less on each individual project because of the necessity of individual appropriations which seems to me decidedly different from the old contract authorization.

I am sorry I have taken so much time.

Senator KENNEDY. We have a situation today where there are millions of dollars obligated but unexpended balances, it seems to me this legislation with respect to capital expenditures would increase the control, maybe not of the agencies, but of Congress over these large amounts of money which have been appropriated but which under the present system and which have been unobligated but have been unexpended and hanging over for 2 to 5 years, under this legislation that situation would not be likely to occur and for that reason it seems to me if the congressional committees were alert, there might be some significant changes in capital expenditures.

Dr. ANTHONY. That is possible, sir.

Senator KENNEDY. It is just a question of how the committees meet their responsibilities.

Dr. ANTHONY. Yes, sir, entirely. Bceause I think the same thing would be possible under the existing legislation if the Appropriations Committees merely asked: "How much will you spend next year?"

Senator KENNEDY. They are more inclined to leave it to the agencies once they have appropriated the money because the responsibility is not directly on them each year.

Dr. ANTHONY. That is possible.

Senator KENNEDY. While it is possible for them to do it today, the point is they have not done it because the obligation is not on them to do it as much as it would be under this bill.

Dr. ANTHONY. Yes, sir. I would hope that in gaining that objective you would not take away from them the obligation to look at the whole package as Senator Cotton was saying, to which they might not pay so much attention because it is many years off in the future.

Senator KENNEDY. We are much appreciative of your assistance in regard to this legislation.

Dr. ANTHONY. Thank you.

Senator KENNEDY. The next witness is Mr. J. Harold Stewart, Chairman of the Hoover Commission Task Force on Budget and Accounting.

Mr. Stewart, it is a pleasure for the subcommittee to welcome you back. You are the stimulus for this legislation and we are therefore particularly happy you are back to testify again on the bill which is the successor to Senator Payne's bill about which you testified in March, I believe.

Senator COTTON. Mr. Chairman, off the record.

(Discussion off the record.)

Senator KENNEDY. Would you care to proceed? You probably read the testimony which the subcommittee has received since you appeared and read yesterday's testimony and heard Dr. Anthony's so you might want to comment on some of the points raised.

STATEMENT OF J. HAROLD STEWART, CHAIRMAN, HOOVER COMMISSION TASK FORCE ON BUDGET AND ACCOUNTING

Mr. STEWART. I did. I, too, appreciate the chance to come here again. I appear to be one of a cloud of witnesses for this legislation. It is heartwarming to see really as little opposition as there is to this legislation and I don't think that lack of opposition is born of a lack of understanding either. The revised bill, of course, is somewhat different than its predecessor on which I previously testified. I think the revisions are helpful. I think the introduction of the provision for an accrued expenditure budget is useful and I think you have found a way around the transition problem by placing the responsibility for that on the President. I think that places it squarely where it belongs and under this legislation there can be little excuse for the executive agencies lagging in implementing it.

While it is fresh in my mind, I might direct my remarks to Dr. Anthony's testimony, which is the most recent. I am very glad to see that Bob Anthony and I see almost eye to eye on this problem. I think if you analyze his testimony, in substance it appears to be for this bill. He has indicated certain technical and mechanical innovations but to my mind they do not run counter to the substance of the bill.

Now, let's take his summary. In the first place his opinion is that the bill will have no substantial effect one way or the other on the control of capital expenditures. Senator Cotton, I think you dealt at some length with that particular matter. I would like to say that in my opinion the legislation will contribute materially to the control of capital expenditures because under the present system whether something could be done or not, very little is being done by way of review of appropriation authority once it has been granted. Under the proposed procedure, it would be required that there be an annual review of these moving programs to determine where they are at and where they are going.

I think in that regard we could repeat again the testimony of the Comptroller General in which he said, "It is essential," speaking of

obligational authority, "that the initial authority which may cover a forward period sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans.

On the other hand, as these plans take shape in succeeding years, much more precise planning and appropriations are practical when stated in terms of accrued expenditures. Thus the use of contract authority when considered by the Congress to be necessary in connection with the proposed annual accrued expenditures basis of appropriations is not nor need not be viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent—I think the real distinction between contract authority under the conditions which will be brought about by the bill and conditions as they existed during World War II should be recognized.

You had no accrued expenditure budget at that time. Contract authority was used loosely and without the ability to interpret in financial terms the operations under these contracts. It is clear that contract authority can be misused, the Congress is entitled to know through a representative accounting system what has happened up to the point of review. So I don't think we are talking about the same thing as contract authority which was used in World War II. I know that got into disrepute but I think if you analyze the reasons for it you will find that under present conditions you would meet most of the objections if you carry out the provisions of this bill.

Mr. Anthony in his second paragraph of his summary—item 2—agrees with the fact that significant improvement in the control of operating expenses would be effected.

It is only when we get over to item 4 that I again find some disagreement with him and that is where he suggests the phrase "at the highest practical level" on page 5, lines 17 and 18 should be deleted.

What that is saying is this: That the control of expenditures should be at the lowest possible level. In his text he indicates that he would focus budgeting attention on the lowest possible level. That is unfortunately where it is today. You have in the Defense Department over a million allotments of funds some minute and so detailed that it is impossible to predict in advance what the levels should be. Our recommendation was that budgets be prepared at the highest possible level in order that you might place responsibility upon responsible people.

Now the illustration which was given here as to the use of brooms might well be considered. I don't see how you can put together a budget for an operating unit unless you include in it your estimated costs of consumables. You must have some idea. Otherwise how do you at the highest level know what you are going to need in total? So if you are going to do it at some point, you can do it just as well through your budget. At the operating level those budgets are consolidated into a budget at a higher level and you get away from this multitudinous allotment system under which you can't tell really what did happen except you did not exceed an allotment. This system, of course has given rise to a great many mechanical problems.

As I remember it, there were over 10,000 violations of the antideficiency act in 1 year as a result of this allotment minutia. The Comp-

troller General reported that in his opinion the allotments were overdetailed. The violations mostly are purely mechanical to be sure, but they take time to explain and they make the antideficiency act really a laughing stock because that was not the sort of thing that was intended to be controlled by it.

Going again to Mr. Anthony's summary, he says—

There should be some explicit mention made of the fact that a depreciation mechanism is not contemplated.

I think there is general agreement that depreciation in government has little utility from the standpoint of operation. Once you acquire a fixed asset you have acquired it, the funds are gone and relating periodic depreciation to operations becomes artificial.

I don' think it is necessary to spell that out in the bill.

It seems to me you have given plenty of administrative leeway to the President and the Bureau of the Budget to interpret this legislation and put it into effect. Furthermore, the Comptroller General has a place in this picture and I think his views on that would be substantially those that I am setting forth, although I have not talked with him about it.

I would hate to see the bill cluttered up with mechanical detail or precepts in narrow areas that can be better left to administration.

Mr. Anthony, in his item No. 6, suggests that at some future time the Congress should consider making appropriations for operating expenses in terms of goods consumed.

I think that has some merit, but that is a very short step once you have done what this bill requires. To me the mountainous job, the real colossal job in this whole field is the installation of a meaningful accounting system as a substitute for this mutitudinous allotment system which I consider really meaningless from the standpoint of operational control or the understanding of operations as far as the Congress is concerned. It may be that there are those in the agencies that are so familiar with these allotments that they mean nothing to them. I suspect that is the case. But it seems to me that this knowledge is required and is useful in a good many more spots than the office of the person who runs the allotment system.

As to Mr. Anthony's final suggestion that a clear distinction should be made, either by legislation or by administrative action, between capital expenditures and operating expenses—I think it would be wonderful if you could write a clear distinction but I don't think you want to write a textbook. As a matter of fact, textbooks have been written on that very distinction. I think there you have a matter of of the application of sound accounting principles to the particular circumstances of a case. I personally would prefer to leave that to the judgment of the Bureau of the Budget and the Comptroller General. If after they have made decisions they don't appear to be what the Congress would like, or they are not palatable, there is then the opportunity to define more precisely what you mean.

Definition is somewhat like the situation you had with respect to obligations. As I remember it, there was a bill, H. R. 1311, which was passed to define obligations or attempted to define obligations and require the agencies to report outstanding obligations by September 30. That was born of a misunderstanding, if you will, as to the real meaning of the word "obligations." If there is any such misunderstanding as to depreciation, you can always give it the same treatment.

It seems to me that one of the principal attributes of the development of an accrued expenditure budget is the fact that you cannot operate an accrued expenditure budget without financial facts.

You must develop an accounting system. And we are not talking about 2 accounting systems; we are talking about 1 accounting system from which you can ascertain the operations of this Government. To dignify the present appropriation or allotment system with the name of an accounting system is to show a complete lack of understanding of what an accounting system is. It seems to me this bill will be a spur. In other words, to carry out this bill, it will be necessary, it will be that there will be no choice other than to install accounting systems which are informative and serve the needs of management.

I think we should recognize that there have been great improvements made in the direction of the development of such systems. There have been such improvements in the Defense Department. I think this bill will strengthen their hands and further spur improvement.

I think, to sum up, the greatest impact of this legislation will be felt in the Defense Department. That is where 63 to 65 cents of our tax dollar goes. Whether we will spend less on defense or more on defense is problematical but we certainly should get more for our money under a system which puts scrutiny on expenditures rather than recognizes obligations and then appears to forget them.

I don't think I needed to say before I came here that I am wholeheartedly in favor of the bill and would do anything I can to implement it after it is passed and support it meanwhile.

Thank you, sir.

Senator KENNEDY. Thank you.

Senator COTTON. I have only one question, Mr. Stewart, relative to the last point about drawing a distinction between capital expenditures and operating expenses. It seemed to me that I remember when Congress adopted what was known as the functional budget, that we ran into a situation in the appropriations machinery here in the Congress where a lot of operating expenses—that is you have lump sum for the production of planes but in that lump sum was a lot of incidental operating expenses, so that some of us felt that under the so-called functional budget, that we had less chance of finding the facts than we had previously because we had just a lump sum for production of planes, a lot of salaries, of supplies, a lot of travel, of telephone, and other things lumped in it.

Is that what is involved in this question of making clear the distinction between capital expenditures and operating expenditures?

Mr. STEWART. No.

Senator COTTON. That is something entirely different.

Mr. STEWART. The problem you raise—I understand the objection that was raised in the past, the one you have stated. But if you had a sound accounting system and if they came to you with a budget request and you said how much of this is for salaries; how much of it is for travel; how much of it is for pay of military personnel; how much of it is for pay of civilian personnel; you would have your answer to the question. Under the old form you never could get it.

You would get a conglomerate mass which is transferred as a cost for the acquisition of a capital asset. I would hope under any well-

conceived accounting system those facts would be available to the Congress.

Senator COTTON. So the system contemplated in this bill has no effect one way or another. That is just a matter of your accounting system.

Mr. STEWART. That is right.

Senator COTTON. Thank you.

Senator KENNEDY. We want to thank you very much again. We appreciate your coming down and giving your endorsement to this bill. You testified at some length on it, on the other bill so we will call on your testimony on that. That will be helpful in considering the whole matter before the Congress.

(The following was received for the record:)

LEXINGTON, MASS., *June 7, 1956.*

Hon. JOHN F. KENNEDY,
United States Senate,
Washington, D. C.

DEAR SENATOR KENNEDY: I very much appreciate the opportunity you have given me of commenting on Mr. Harold Stewart's testimony before the Subcommittee on Reorganization, in view of the fact that Mr. Stewart's comments were almost entirely concerned with my testimony to the subcommittee. As Mr. Stewart said at the time, he and I are essentially in agreement on most matters, and my comments therefore will be brief.

Mr. Stewart does disagree with my belief that S. 3897 will result in no major change in congressional control over capital expenditures. Our difference here is strictly a matter of opinion, and I see no point in adding anything to the information already in the record on this matter.

On the second and third points in my summary, we are in complete agreement.

On the fourth point in my summary, I believe I did not explain my position with sufficient clarity. Mr. Stewart wishes to reduce the present number of separate, minute allotments, and I am in complete agreement that this is essential to good financial control. However, I feel sure that this can be accomplished by the statement in the bill that "each agency shall work toward the objective of financing each operating unit from not more than one administrative subdivision for each appropriation or fund affecting such unit." The additional phrase "at the highest practical level," which appears in the present wording of this passage, will not, I believe, aid in reducing the number of allotments at all and may well have undesirable consequences. As I tried to explain in my statement, control should be focused on the lowest practical level so as to get as close as possible to the point where the money is actually spent.

With respect to my fifth point, Mr. Stewart suggested that the fact that depreciation accounting was not contemplated was so obvious that it did not need to be spelled out. As it happened, the very next witness, Mr. Conick, assumed in his statement that depreciation was contemplated in the bill, and this emphasizes, I think, the desirability of an explicit statement, preferably in the committee report, on this matter.

On the final two points in my summary, I think Mr. Stewart and I are in agreement.

If I may add a personal word, I thought it was excellent that in introducing Mr. Stewart, you gave explicit recognition to the very great service that he has rendered the country, both as Chairman of the Hoover Commission Task Force on Budgeting and Accounting and subsequently in his efforts to see to it that the recommendations are implemented. I know something of the considerable sacrifice of his own time and energy that has gone into this work and of the difficulties he has faced and successfully overcome in explaining the complicated, unglamorous, but nevertheless, important, proposals for change in the budgeting and accounting structure of the Government. He richly deserves recognition for it.

Respectfully yours,

ROBERT N. ANTHONY,
Associate Professor, Harvard Business School.

Senator KENNEDY. The next witness will be Mr. M. C. Conick, a member of the United States Chamber of Commerce, and a senior partner of Main & Co., auditors, of Pittsburgh, Pa.

Would you proceed, Mr. Conick?

STATEMENT OF M. C. CONICK, ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY WELLES A. GRAY

Mr. CONICK. My name is M. C. Conick. My address is Pittsburgh, Pa. I am a senior executive partner of the auditing firm of Main & Co., certified public accountants. I am past president of the Pennsylvania Institute of Certified Public Accountants, and a past vice president of the American Institute of Accountants.

I appear on behalf of the Chamber of Commerce of the United States, to support the accounting principles of S. 3897 in amendments to the Budgeting and Accounting Act, 1921, and to the Budget and Accounting Procedures Act of 1950.

I am accompanied here by Mr. Welles A. Gray, assistant manager of the taxation and finance department of the chamber.

I made a similar appearance before the House Committee on Government Operations on May 22, 1956, in consideration of H. R. 9402 and related bills.

My statement here relates to the recommendations on Budget and Accounting recently reported to the Congress by the Committee on Organization of the Executive Branch of the Government.

The Hoover Commission Task Force, in submitting these recommendations, estimated that the resultant savings might reasonably be expected to amount to $4 billion annually. These savings, it is believed, can be accomplished without impairing essential Government services, including those connected with national defense.

There is no congressional power more important than the control of appropriations. It has been recognized since the early days of the Republic that supervision of the Nation's purse strings was a prime responsibility of the Congress, and the Congress had reacted to that responsibility with a high sense of duty.

Today, the task of weighing this country's appropriations is more complex than it has ever been before. That task, staggering as it is in its dimensions, is made even more burdensome by the fact that the Government's present accounting methods are far less efficient than they should and could be, and do not give the best possible picture to you who must make the decisions.

I have been active in the field of accounting for 40 years; I have worked with some of the largest organizations in the country and I can tell you that I would not care to change places with you at appropriations time, not under the conditions under which you operate.

Those conditions can be changed and improved, to the Nation's benefit as well as yours.

Furthermore, other than the limited number of budget and accounting personnel of highly expert competence, the people on whom you must rely for much of your information are not necessarily the people best equipped to present it to you; in the first place, their point of reference is not the same as yours; they are understandably concerned

with the continuation and enlargement of certain programs, and with considerations that affect their own personal well-being.

In the second place, they are persons whose primary talents lie in fields other than budget reporting; they may be excellent field commanders, agricultural specialists, or diplomats, but they are not likely to be the best authorities on the care and preservation of the dollar. That is a problem that industry faces, as well as Government, and industry solves it by means which are inherent in the 25 budgeting and accounting recommendations of the Hoover Commission.

In this connection, I should note the obvious difference between private industry and Government, which is that private industry is run for profit.

That difference makes the businessman's task a lot easier than yours; he can judge his company's position by seeing whether it is making a profit. You have no such rule of thumb. For that reason, and for other apparent reasons, you are obliged even more than the businessman to see that the money you appropriate is wisely spent.

The national chamber has long recognized the conditions reported in the Hoover Commission's report to Congress. In April of 1953 the chamber recommended, as it now does, improved methods of appropriation, with the most modern and effective procedures for budget preparation, review, and control. The proposal laid particular emphasis upon "cost consciousness" in the presentation of budget requests to Congress, and called for the establishment of responsibility for the saving of tax money.

We have no argument with the budget process. In fact, we have held for a long time that this process is the logical chief control over Federal expenditures, because the budget, after all, amounts to the financial blueprint of a work program; perhaps a blueprint seen through smoked glass, but a blueprint nevertheless.

However, as we in the national chamber have followed the budget process from beginning to end—from congressional authorization of a spending program—which according to one Representative, is where all the trouble starts—to the actual disbursement of the taxpayers' money—we have observed many basic weaknesses.

I would like to call attention again to some serious defects in our present system of budgeting, as previously observed by the national chamber:

(*a*) The lack of dependable information concerning overall costs of new programs and projects.

(*b*) Lack of enough independent information concerning the real necessity of the funds requested.

(*c*) The fact that Congress has no control over actual expenditures, once the money has been appropriated.

(*d*) The fact that budget presentations, supported by charts, tables, and other graphic material, reflect emphasis not on cost consciousness, or the necessity for the proposed expenditures, or minimum requirements, but primarily on the petitioner's intense desire to get the cash out of the Congress.

I have already referred to the national chamber's policy as set forth in April of 1953 and adopted by our membership. At its 44th annual meeting, held last month, the chamber adopted a policy declaration commending the work of the Hoover Commission.

Here and now, we are principally concerned with the Commission's report on "Budget and accounting," which makes 25 recommendations. I would like to summarize a few of them here and to note the extent to which they may be accomplished by the enactment of S. 3897.

One recommendation calls for revitalization of the Bureau of the Budget. To accomplish these aims, S. 3897 proposes amending the Budget and Accounting Procedures Act of 1950 by adding section 106 to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications or organizational structure—with the view of supporting budget justifications by information on performance and programing costs by organizational units.

The Commission recommended that budgets be formulated on a cost basis, taking into consideration inventories and working capital carryover to reflect the cost of goods and services to be consumed in carrying out budget programs.

The cost-basis principle for budgets is provided for in S. 3897 by the additional of subsections (*b*) and (*c*) to section 216 of the Budget and Accounting Act, 1921, as amended.

The Commission recommended placing the budget and appropriations on an estimated annual, accrued expenditure basis. That is, the budget would be expressed in terms of the charges for goods and services estimated to be received during the year.

All charges would be considered, regardless of whether or not invoices had been received or payments made. This recommendation takes into consideration, for example, the difficulty of translating the proper share of a 7-year airplane building program into a 1-year budget.

And again, the annual accrued expenditure basis is contemplated in S. 3897 by the addition of subsections (*b*) and (*c*) to section 201 of the Budget and Accounting Act, 1921, as amended.

There is a recommendation for simplification of the allotment system, so that there will not have to be a separate accounting for each infinitesimal unit of Government. To this end, S. 3897 proposes amending section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)) of the Budget and Accounting Procedures Act of 1950.

The Commission recommended that Government accounts be kept on an accrual basis, which would make it possible to prepare periodical financial statements for each agency showing "What it owns and what it owes, as well as the current costs of the various operations."

S. 3897 proposes that this be accomplished by adding a new subsection (*c*) to section 113 of the Budget and Accounting Procedures Act of 1950.

Finally there is a recommendation that agencies accelerate the installation of adequate monetary property accounting records, in the same way that business does, and that the costs of capital assets be depreciated over the useful lives of those assets, instead of being charged off in a single year. (Accomplished by the new subsection (*c*) of section 113 of the Budget and Accounting Procedures Act of 1950.)

Perhaps you have neither the time nor the inclination for me to review all the cogent arguments set forth in the Hoover Commission report to Congress. I am sure, moreover, that you are as familiar

with them as I. I am here today to urge that the Congress take measures to regain its constitutional power of control over Federal spending.

That power, we believe has been increasingly threatened by present means of accounting. Unless the Hoover Commission's recommendation for annual review of all items in the current budget is accepted, we shall continue to mortgage away our future.

What I have talked about to you has been the national chamber's policy in support of the report as submitted by nine members of the Hoover Commission. I would like to summarize the brief dissents filed by the other three members of the Commission. Since no more than a summary is necessary, the full text it not quoted here.

Commissioner Brown dissented from recommendation No. 7 of the report because he felt that conversion of the appropriation structure to an estimated annual accrued expenditure basis would require widespread changes in the entire appropriation process, and was, therefore, unwilling to give it a blanket endorsement without the benefit of further study.

Commissioner Holifield stated it as his overall conclusion that—

> The end result of the Commission's recommendations may be formal consistency in accounting principles rather than actual gains in economy and efficiency.

Commissioner Farley based his general dissent on the belief that what may be good for private commercial enterprises is not necessarily good for all Government activities and operations; that—

> The transition to "cost basis" accounting will require tremendous expense and inconvenience, and that there is insufficient evidence that it will be universally workable and worthwhile.

These objections have been duly noted and soberly considered. We base our support of the report as a whole on the fact that it makes recommendations which have been tested and found essential in successful private business, and that the differences between the management of private business and of public government are differences of ends rather than of means.

We recognize that certain disruptions would be brought about by introduction of the procedures recommended, but the fact is that the present procedures are not adequate to permit the Congress to perform its function properly, and that the situation could grow worse, instead of better.

We believe that the long-range benefits to be derived from adoption of these recommendations will more than offset the temporary disruptions, and that the recommendations should be supported by every Senator who believes that the Republic is going to be around for a good many more years.

Thus, in general, the chamber of commerce supports the basic provisions of S. 3897, which will do much to put into effect these important recommendations of the Commission.

On comparing S. 3897 with S. 3199, earlier considered by your subcommittee, and its House counterpart H. R. 9402, we note improvements in language, and are particularly gratified at the inclusion of the section directing development of an accrual system of budgeting and appropriating.

We note also, however, omission of certain of the provisions of S. 3199 and H. R. 9402 which we feel to be very important. I have par-

ticular reference to those dealing with the regular assignment of budget examiners to each agency, the establishment of agency comptrollers, the provisions for a staff office of accounting and the requirement of performance reports, all of which also were recommendations of the Commission.

We realize that the acts of 1921 and 1950 gave the Bureau of the Budget discretionary authority to take steps along these lines.

In view of the fact, however, that these things have not been done since the passage of the 1921 and 1950 legislation, we suggest that if Congress desires that these steps be taken, it would appear advisable to make them mandatory as provided in S. 3199 and H. R. 9402.

Thank you very much.

Senator COTTON (presiding). We thank you. You have given us an excellent statement.

May I ask you to refer to the paragraph in the middle of page 8 of your statement which begins, referring to the Hoover Commission.

Finally, there is a recommendation that agencies accelerate the installation of adequate monetary property accounting records, in the same way that business does, and that the costs of capital assets be depreciated over the useful lives of those assets instead of being charged off in a single year.

A number of witnesses before this committee who have insisted that we should not only not act on that recommendation but that we should specifically make a declaration in this bill that we are not contemplating having a system of depreciation.

I take it you don't agree with that viewpoint. You think that the Government should——

Mr. CONICK. I have two views on the question of depreciation. I heard the discussion here this morning. I heard your questioning. I heard the two witnesses. In addition to depreciation you also have obsolescense as an element of cost. The depreciation on this building is a very small factor. This building might last 50 or 100 years; 1 or 2 percent of the cost of this building is not a very important factor. If on the other hand you appropriate X billions of dollars for the building of a capital asset or assets which becomes obsolete before it is completed, it would seem to me that you should have some information before you as to that obsolescence and accrual. I think it is an important factor. I think it is a material factor.

Senator COTTON. Could you give us an example of what you have just referred to?

Mr. CONICK. Yes; I can give you an example. Let's suppose in this field of electronics now, appropriate X billions of dollars for the production of missiles. I don't know much about missiles. I am an accountant. But I do know that the building of missiles takes a few years, first in the development, the research work, and then in the construction. If at the end of the third year, the research work shows that what was developed in the previous 2 or 3 years became obsolete, yet billions of dollars have been spent on the production of the item, it would seem to me that you should know about that when you are appropriating the next several billion dollars for a similar project.

Senator COTTON. Of course, I can understand in private industry that that is a very practical thing. Also like many Members of Con-

gress, I have been often irked somewhat by the fact that when we are delving into the financial operation of national defense that we are constantly being faced with the cloak of secrecy and it is hard sometimes to discover financial facts because of the classified information.

If a congressional committee or the Bureau of the Budget were in a position to demand or try to demand information about the fact that the guided missile, which is under construction and upon which we based our hopes was obsolescent and had been outstripped, we would be getting into the field of some pretty classified information that would be pretty dangerous to have spread around the world.

We are always up against that delicate situation. I wonder if that particular example is the best kind of an example because you are running straight into a field that I acknowledge may be abused but where there is a necessity for not putting on paper and periodically airing before Congress or anybody else just which of our weapons work and which don't and which were a good investment and which were a mistake. Isn't that right?

Mr. CONICK. That would apply to a carrier, any large capital improvement, not necessarily one that is secret but one that is out in the open.

Senator COTTON. In the secrecy of appropriations committees I have known representatives of the Defense Department to be most frank in indicating those portions of the program that had not been successful or were outmoded and outdated. But there is a difference in coming up on the Hill and going into an executive session and outlining the situation, and in installing a system of accounting whereby in black and white as a matter of public record somebody has to indicate our mistakes and weaknesses; isn't that right?

Mr. CONICK. Getting away from the obsolescence of war items, getting down to the ordinary depreciation of fixed assets, the only way you can measure new appropriations for fixed assets is to know the extent to which the assets which are being replaced are being depreciated.

Unless you have a system of estimating the usefulness, the useful life and the extent to which they have been used up, there is no way you can measure the need or determine the need for a new appropriation to replace an old one.

Senator COTTON. My questions are not necessarily antagonistic to you. I am trying to clear this up. Do you think it is practical for the Government to set up some kind of a system to show depreciation on office furniture, typewriters, accounting machines, and all of the multitudinous paraphernalia that we have in Government? Sitting on an Appropriations Committee I have seen people come up and want so much money for replacements for typewriters. We always say how many typewriters do you have? What has happened to them and how many of them are worn out? What are you doing with the ones that are worn out? I merely would like to have you just very briefly indicate the answer to those who have testified before the committee and indicated that it is not, at least at the present time, a practical proposition to set up a system of determining depreciation in the Government.

Mr. CONICK. It is just as practical to set up a system of depreciation for fixed assets for Government as it is for private business. You

are dealing with facts. You are dealing with values. You are dealing with specific things, with things that have an estimated useful life and there is no reason why the Government should not know the extent to which its money is being invested in things that have a life longer than 1 year and how each thing is being used up over its useful life.

I don't know of a private business today that does not have a system of determining the extent to which its fixed assets are being used up in the business.

But prior to 1913 or thereabouts, it was true that very few businesses ran their records in such a way as to determine accrued depreciation. There is no reason now why Government can't do it. It has not been done. It isn't being done in our cities or counties or States and it is not being done here at the moment. You are dealing with a fixed asset that has a useful life of more than 1 year and there is no reason why you can't measure its life the same as you do in business.

Senator COTTON. Of course, we have a General Services Administration, a large part of whose activities are devoted to furnishing these necessary tools and to check and examine into the needs of various departments and see if automobiles need replacement or something else and then to find and dispose of and make use of the depreciated item. My guess is that they send the old desks up to Congressmen and Senators, from what I have. But there is a department devoting itself to that task which is not analogous to private industry.

Mr. CONICK. The principle of depreciation is just as sound and applicable in Government as it is in business. You are dealing with a fixed asset. You are dealing with something that has a useful life longer than 1 year, 2 years, sometimes many more years. There is no reason why you should not have records showing the extent to which those assets are being used up and depreciated.

That is an accountability.

Senator COTTON. Suppose you have those records; how are you going to apply those records as a practical matter?

In what way, in the budget making process and the appropriation process?

Mr. CONICK. Let's take an example. You have a building here with furniture in it and you have X dollars invested in this furniture. You have records showing that that furniture was bought X years ago. It has been depreciated. It has been used up. A request is made to replace that furniture. If you know from your accounting records that the furniture has been used up, has been in use for X number of years and over those years the accounting records show that it has been properly depreciated and there is a support for the new furniture, you have a basis upon which to measure the request for the new furniture to the extent that the old furniture has been depreciated. It is true that the new furniture might be of a different make, different size, even of a higher value. But that is beside the point. If you have a request for new furniture in this building here and you know that over the years X dollars have been spent for furniture and over the years it has been depreciated according to the records fully or thereabouts, then you have a basis upon which to determine the need for the new appropriation for furniture.

Senator COTTON. Thank you very much, sir.

Mr. William Jackman, president of Investors League, Inc., of New York.

STATEMENT OF WILLIAM JACKMAN, PRESIDENT, INVESTORS LEAGUE, INC., NEW YORK, N. Y.

Mr. JACKMAN. I am William Jackman, president of Investors League, Inc., with national headquarters at 175 Fifth Avenue, New York City.

The Investors League is the oldest and most successful organization of investors, with thousands of members who reside in every State in the Union. It is a nonprofit, nonpartisan voluntary membership organization of investors, both large and small, who make up the backbone of our national capitalist economy.

We are grateful for this opportunity to appear before your distinguished committee regarding S. 3897, which would enact into law various recommendations of the Hoover Commission designed to improve governmental budgeting and accounting methods and procedures.

The sponsors of this bill should be highly complimented on their effective coordination with the General Accounting Office and the Bureau of the Budget in preparing this amended version of the original Payne-Lipscomb bill (S. 3199 and H. R. 9105).

By limiting the amount of congressional appropriations for each fiscal year to the estimated amount actually to be spent or accrued during that year, as provided in this bill the control of unexpended billions of dollars of appropriations would be restored to the control of Congress where they properly belong.

Senator Kennedy, your chairman, Senator Payne, and the 30 other distinguished Senators who have cosponsored this bill are hereby unselfishly rendering to the entire population of the United States the greatest legislative reform that ever has been attempted, at least during the present generation. This legislation concerns itself with the good of every living American as well as the welfare of those who have not yet been born.

From the original inception of the Hoover Commission and its task forces down to this very day, the unselfish nonpartisan character of the members of the Commission and of the Members of Congress in their approach to the job at hand has enabled them successfully to ignore all efforts of those self-serving vociferous organized pressure groups which on various occasions have sought to distort and misrepresent the accomplishments of this great group of sincere, able, and courageous patriots.

Gentlemen, my appearance before this committee is not to present my views as an expert on budgeting and accounting. I am here only to represent the interests of the American investor—that important citizen whose interests for the past 25 years have been almost completely neglected in the councils of government.

It is the private investor, and he alone, who saves more than he spends, and puts his savings at risk in industry in hope of a fair return. I repeat, gentlemen, it is he alone who can provide the $12,000 for the tools of industry and the research needed to provide a job for each worker in industry. Destroy the investor, either deliberately or through oversight and you destroy capitalism itself.

Just because the investor does not pressure you to death with crackpot spending schemes, don't make the mistake of thinking he is not politically conscious or that he is too small a segment of our popu-

lation with which to be bothered in an election year. He is our slumbering giant just awakening from his state of apathy, about to gird himself for political battle against those who would destroy him with the insidious poison of punitive taxation and destructive inflation.

In 1952 the highly reputable Brookings Institution, here in Washington, completed an intensive, conservative research study titled "Share Ownership in the United States." This survey indicated that 7,050,000 families of the total of 50 million families in this country owned corporate stocks.

It has been conservatively estimated that share ownership has increased by 15 percent since that factual study was made. This would indicate that approximately 8,100,000 families now own stocks. If we conservatively assume that the average family comprises 2½ adults, it is apparent that there are over 20 million voters among those investor-shareowner families. I ask you, gentlemen, how long can the interest of these 20 million voting citizens be ignored?

In recent years investors have been urging vitally needed and long-overdue tax revisions that would encourage investment incentive and not deliberately discourage it. The principal obstacle to such tax revision is the inability to balance the Federal budget, due in no small measure to the unbounded waste in Government operation.

Enactment into law of S. 3897 will give to our millions of investors the first ray of hope for large tax reduction that they have ever enjoyed. The bill presumably will save $4 billion annually now being wasted in the business of running the executive branch of the Government and its many bureaucratic agencies without eliminating any necessary Government service; $4 billion a year is a lot of money. It amounts to about 13½ percent of the annual individual Federal income tax.

I might emphasize that I am here to urgently recommend that S. 3897 be enacted in this session of Congress, so that investors along with all other of our taxpaying citizens, will begin to reap the benefits as soon as possible.

The 84th Congress of the United States, by enacting this bill into law, will make an honored and long-enduring name for itself in the history of this great Nation.

The recommendations upon which this bill is based have been determined after years of thorough study and research on a politically nonpartisan basis by the best practical minds that this Nation can produce. We investors have accepted their findings and recommendations and their estimates of savings as essentially reliable and authentic.

While we well realize that action on S. 3897 may be opposed directly or in some roundabout fashion by those who may have a vested interest in spending the public funds to suit their own selfish whims and fancies, we strongly urge the members of this committee to ignore as uninformed, and therefore immaterial and irrelevant, that part of any testimony presuming to be "expert" that may be presented at this hearing by economists, educators, or other theorists. While they may be experts in their own respective fields, I doubt that they have had the years of solid practical experience in budgeting and accounting procedures in successfully running Government and business such as have been experienced by the members of the Hoover Commission, its task forces, and their consultants.

After all, gentlemen, the United States Government is the biggest business in the world. Unless it is run on a strictly business basis, with efficiency and a minimum of waste, we can never hope to get the long overdue tax relief so necessary to encourage private individual capitalism and a better and more prosperous world for our children and our children's children.

Gentlemen, I thank you.

Senator KENNEDY. Mr. Jackman, we appreciate your testimony very much.

I was interested in seeing the small folder or cartoon book which you prepared when our bill was written, containing a quotation by Senator Cotton. We thought it was very good.

Senator Martin, do you have any questions?

Senator MARTIN. No questions.

Senator KENNEDY. Thank you very much.

I have a statement from the Kansas State Chamber of Commerce for the record.

(The statement referred to is as follows:)

STATEMENT OF KANSAS STATE CHAMBER OF COMMERCE, C. C. KILKER, MANAGER, TOPEKA, KANS.

The following statement of the Kansas State Chamber of Commerce is submitted for consideration by the Senate Government Operations Committee in its hearings on S. 3897, scheduled to begin June 4, 1956.

The Kansas State Chamber of Commerce is a voluntary, nonprofit organization with a statewide membership of approximately 2,850 individuals, firms, and associations in the State of Kansas representing practically every segment of the State's economy.

Following study by its Federal taxation council, the board of directors of the Kansas State Chamber of Commerce has endorsed many of the major recommenations of the second Hoover Commission, including those relating to budget and accounting procedures.

There is no congressional power more important than the control of appropriations. The task of weighing this country's appropriation needs is growing more complex every year. To meet this problem, business recognizes the need for improved procedures for budget preparation, review and control.

Without minimizing progress that has been made in this field, serious defects in the present system of budgeting have been recognized and pointed out. Among these are:

1. Lack of dependable information concerning the overall costs of new programs and projects.
2. Lack of congressional (or executive) control over actual expenditures, once the money has been appropriated.
3. Lack of knowledge about the actual annual costs of programs or projects.

Recognizing such deficiencies, the Kansas State Chamber of Commerce supports the Hoover Commission recommendations aimed at correcting these and other shortcomings, in part through executive action and in part through legislation. It is encouraging that the President's message of May 10 promised executive action and requested legislation to provide a coordinated attack on the problem.

There seems to be no dispute over the fact that present procedures are not adequate to permit Congress to perform its function properly. This situation is growing worse instead of better. Believing firmly in the long-range benefits to be derived from adoption of the Hoover Commission recommendations, we urge passage of S. 3897 or other legislation to accomplish this purpose.

Senator KENNEDY. The subcommittee will now recess to meet tomorrow morning at 10 o'clock, to hear from the Department of Defense.

(Whereupon at 11:50 a. m., the hearing was recessed to reconvene at 10 a. m., June 6, 1956.)

BUDGETING AND ACCOUNTING

WEDNESDAY, JUNE 6, 1956

United States Senate,
Subcommittee on Reorganization of the
Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to recess, at 10:10 a. m., in room 457, Senate Office Building, Senator John F. Kennedy (chairman of the subcommittee) presiding.

Present: Senators John F. Kennedy, Massachusetts; Norris Cotton, New Hampshire; and Thomas E. Martin, Iowa.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; and Mrs. Kathryn M. Keeney, clerical assistant.

Senator Kennedy. The subcommittee will come to order.

The first witness will be the senior Senator from Massachusetts, Senator Saltonstall.

STATEMENT OF HON. LEVERETT SALTONSTALL, A UNITED STATES SENATOR FROM THE STATE OF MASSACHUSETTS

Senator Saltonstall. Mr. Chairman and Senator Martin, first I apologize—I congratulate you on starting on time and I apologize for delaying you except that as I told you we have some tariff problems and agricultural problems in Massachusetts and that is what delayed me. I appreciate very much this opportunity to appear before you and your subcommittee on a matter that I feel is of real importance to us all as Members of Congress and as part of our great Government here in Washington.

In the past few years there has been a growing concern over the fiscal management of the Federal Government, which is not at all surprising in view of the extremely large amount of money handled annually by the Government and the increasing complexities of governmental problems.

I believe strongly that Federal budgeting and accounting procedure and methods can and should be improved. My experience in this regard and my opinions are based not alone on my observations of Federal methods and procedure but also on my experience as Governor of Massachusetts over a 6-year period.

Mr. Chairman, in Massachusetts we did reorganize the governmental expenditure accounting procedures. I used to receive once a week from the commissioner of administration and finance there a statement of expenditures, our accruals and the balance of the appropriations. I went over it with the administrator once a week and

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in that way was able to keep after the various department heads if they were going too fast or if they weren't going in the right direction.

Now, Mr. Chairman, I should like to cite for the committee five specific instances illustrating the problem as I see it and suggesting avenues for improvement of our present system.

1. Many of our municipalities and State governments have an accrual system. So far as I know, the Federal Government has none.

2. It is my understanding that there is no present method for accounting for outstanding checks. In other words, the cash balance of the Treasury Department is made up on a day-to-day basis after the day's business is completed, and outstanding checks to the best of my knowledge are not accounted for.

3. The inventory systems of the Government are far from complete. The armed services as a result of the amendments to the Unification Act of 1949 are building one up but it is progressing very slowly. Navy, I think, has advanced furthest in that direction. The Army is next. The Air Force, of course, is the newest force, and their inventory system has advanced the least. Until very recently there was no inventory of real estate owned by the Government.

I think you will find that the real-estate inventory that is now made up each year and reported to the Appropriations Committee of the Senate has only been in effect now for about 2 years. That was started several years ago in the Subcommittee on Independent Offices that was headed by Senator Maybank, of South Carolina, and myself. With the approval of the full committee we brought about an inventory of all the real estate by the Government and that I hope is now kept up to date.

4. Under present budgetary practices, original estimates are built up almost a year in advance of the start of the fiscal year. In some instances they are outdated by the time they are put into effect.

5. It is very difficult to distinguish between expenditures and appropriations and if your committee, in working on this problem, can bring about some method so that a layman can distinguish simply between the appropriations that are made by Congress each year and the expenditures based on those appropriations and based on accumulated balances that are made by the departments, I think that would be a real help to us in making the appropriations each year.

These are but a few of what I know must be just a few of countless examples of ways and means by which our budgeting and accounting methods can be improved. Any one of them by itself might seem to be of no great consequence, might appear not to offer any essential savings or factor of efficiency but taken together, multiplied by the many departments of Government and the many national and local interests with which our Federal Government must deal, these represent tremendously important ways of better accounting for our Government's income and more sensibly and economically keeping track of and controlling its expenditures.

I believe that this bill, S. 3897, represents a commonsense proposal for dealing with this problem, initially. I certainly intend to give it my full and continuing support and I hope very much, Mr. Chairman, that, with your subcommittee's approval, it may be reported favorably to the full committee and then to the Senate.

I realize that it is a very complicated subject and I realize that after these hearings you may have suggestions and new ideas that may

result in amendments but the principle is there. I am awfully glad to see that you are working on it. I hope you will make a real progress.

Senator KENNEDY. Senator, just one question. As a member of the Appropriations Committee of the Senate, do you feel that the passage of this legislation would make the job of the Appropriations Committee easier in the sense that it would make it possible for them to keep a better eye on governmental expenditures?

Senator SALTONSTALL. I certainly do. As I say, the thing that shocked me most when I first tried to study this problem as a member of the Appropriations Committee was the lack of any accrual system and also that no department, unless you went right into it and demanded it, would tell you its unexpended balances. We do that today in the Defense Department—and in the Mutual Assistance Act—because they represent such a large part of the available money for the Defense Department.

But until that came along we never went into that subject at all. I think it is very important and it would be very helpful. I think it would also be very helpful to the Appropriations Committee to distinguish, as I say, between appropriations and expenditures and how they affect our Government. That is not understood, and those two terms are confused time and time again.

Senator KENNEDY. Thank you.

Senator Martin?

Senator MARTIN. I have no questions but I appreciate your opinion based as it is on your work and your experience on appropriations and on your work with the independent agencies, I think you have made some very good observations.

Senator SALTONSTALL. Thank you, Senator. I appreciate the opportunity to come here before you.

If I might just add this one thing, Mr. Chairman, have you seen that inventory of real estate that was started 2 years ago and printed, I think, as a Senate document, 2 years ago, and I think the House committee has also built up an inventory.

Have you seen those? Have you had those inventories before your committee here?

Senator KENNEDY. Yes, the inventory of real property has been received by the committee. Mr. Shriver advised me that the report is frequently used by the committee staff.

Senator SALTONSTALL. That may be helpful. I think that inventory system of real estate could be very much improved and made more useful than the form in which it now appears.

Senator KENNEDY. I agree with you, Senator Saltonstall, thank you very much.

Senator SALTONSTALL. Thank you, Mr. Chairman, and Senator Martin.

Senator KENNEDY. The next witness will be Mr. McNeil, Assistant Secretary (Comptroller) of the Department of Defense. He is accompanied by General Williams, Comptroller of the Army; Admiral Beardsley, Deputy Comptroller of the Navy; Mr. Cassidy, Assistant Comptroller of the Navy, by Maurice H. Lanman, Assistant General Counsel for Fiscal Matters, and Howard W. Bordner, Deputy Comptroller for Accounting Policy.

Mr. McNeil, thank you very much for coming up. We appreciate the other gentlemen coming with you. Would you care to proceed in any way you wish?

STATEMENT OF W. J. McNEIL, ASSISTANT SECRETARY (COMPTROLLER), DEPARTMENT OF DEFENSE; ACCOMPANIED BY LT. GEN. LAURIN L. WILLIAMS, COMPTROLLER OF THE ARMY; REAR ADM. G. F. BEARDSLEY, DEPUTY COMPTROLLER, AND W. P. CASSIDY, ASSISTANT COMPTROLLER OF THE NAVY; MAURICE H. LANHAM, ASSISTANT GENERAL COUNSEL, FISCAL MATTERS, AND HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING POLICY, DEPARTMENT OF DEFENSE

Mr. McNeil. Thank you. The other gentlemen are accompanying me because this is rather an involved subject and I thought perhaps subsequently in the questions it might save the committee time and would be helpful if they were present.

I might first, Mr. Chairman, touch upon several items in the statement and then try to reply to any questions that the committee may have.

It is understood that S. 3897 is a substitute for S. 3199 upon which we have made a previous statement to your committee. It is based upon certain recommendations of the Hoover Commission in its Report on Budget and Accounting.

This bill eliminates a number of features of S. 3199 and deals with the following amendments of the Budget and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950:

(1) A requirement for the institution by the departments and establishments of the cost basis of budgeting in submitting requests to the Congress for appropriations, in such manner and at such times as may be determined by the President (sec. 1 (b) of the bill).

(2) A requirement, as soon as practicable, for each executive agency to maintain accounts on the accrual basis (including integrated property accounting) to facilitate the preparation of cost-based budgets (sec. 2 (b)).

(3) A requirement for achieving, insofar as possible: (*a*) consistency in accounting and budget classification; (*b*) synchronization between accounting and budget classifications and organization structure; and (*c*) support of budget justifications by information on performance and program costs by organizational units (sec. 2 (a)).

(4) Requirements in administrative control of appropriations or funds: (*a*) to simplify and reduce the number of administrative subdivisions (sec. 2 (c)); and (*b*) to make administrative subdivisions upon the basis of cost-based budgets when instituted under section 1 (b) of the bill (sec. 1 (b)).

(5) A newly proposed requirement to make appropriations upon the basis of estimated annual accrued expenditures, rather than estimated obligations to be incurred, when and to the maximum extent deemed desirable and practicable by the President (sec. 1 (a)).

I have listed them in inverse order in order that I may discuss the four points more or less as a grouping and deal with the proposed requirement to make appropriations on the basis of annual expenditures and deal with that separately.

As previously stated to your committee, the Department of Defense wholeheartedly supports the provisions of this bill with respect to the use of (1) cost-based budgets; (2) the accrual basis of accounting, (3) the basis of synchronizing budget and account classifications, and (4) the basis of administrative subdivision of funds—provided that (*a*) the meaning of "costs-based budgets" and the "accrual basis of accounting" is understood; (*b*) the obligation basis of budgeting, accounting and administrative control of appropriations and funds is also continued to be utilized; and (*c*) adequate time is allowed for orderly development and installation of practical new methods in a manner that will not disrupt operations nor unduly increase the expense of conversion.

The question of conversion of the basis of appropriations to accrued expenditures as I mentioned a moment ago may be separated from all the other provisions of the bill, including cost budgeting.

That will be a subject of comment later in this statement.

All of the other provisions of the bill may be implemented without changing the present obligation basis of appropriations.

So far as the Department of Defense is concerned, title IV of the National Security Act, as amended in 1949, based upon recommendations on the first Hoover Commission, already contains, among other things, most of the features of the foregoing proposals, other than the accrued-expenditure basis of appropriations. This bill would make such requirements governmentwide and, while not as broad in scope as title IV, does add certain specific detailed requirements which are not in title IV.

With the aid and encouragement of Congress (especially the Appropriations and Armed Services Committees) the Department of Defense has made much progress under title IV in:

(*a*) Improving appropriation and budget account structures; synchronizing budget and account classifications and organizing units, and providing an account structure to take the cost-basis of budgeting, as well as the obligation basis.

(*b*) Installing financial accounting for property, worldwide, on a practical basis, with special consideration of needs of combat forces.

(*c*) Instituting the use of working capital funds, authorized by title IV, to finance inventories of consumable materiel and operations of industrial- and commercial-type activities which furnish goods and services to other activities. These funds provide great management advantages which could not be obtained if appropriation methods were used. Also these funds employ the accrual basis of accounting for their operation (similar to private industrial and merchandising businesses). And they also facilitate the use of the accrual basis of accounting and cost budgeting and accounting by the customer, or consuming activities which are financed by appropriated funds.

(*d*) Improving and simplifying the basis of administrative subdivisions of appropriations and funds.

(*e*) Beginning the use of cost-based budgets and accounting and the use of the accrual basis of accounting for appropriation financed activities.

(*f*) Establishing a sound basis of programing and budgeting for procurement requirements, in terms of cost, of all major end items,

through analysis of planned peacetime and mobilization requirements and consideration of quantities on hand and on order.

(*g*) Improving obligation accounting under section 1311 of the Supplemental Appropriation Act of 1955.

(*h*) Beginning the use of commitment accounting under long lead-time programs. I might add commitments are procurement actions prior to obligation—such as orders to place contracts—for which funds should be reserved in determining the day-to-day status of these programs, as well as accounting for progress in performance.

(*i*) Improving administrative budgets and reports.

Mr. Chairman, I dwelt on those points because frequently through a series of hearings, when changes are being advocated, it is very easy to emphasize what has not been done and not what actually is being done in the present framework and my remarks on present progress is an effort to put the problem in perspective.

In the area of operations and maintenance, the Department of Defense is moving toward the goal of budgeting, controlling and accounting for all controllable costs of each major identifiable activity under one allotment. This requires improvements in appropriation and budget account structures—synchronizing budget, accounting, and organization structures—managing programs in simple direct organizational channels—as well as use of the accrual basis of accounting, including financial accounting for inventories.

I would like to dwell on that for just a moment if I may. The accrual basis of accounting is fine but it is more meaningful if it is in line with the organization structure and if the basis for appropriations is also on the same wavelength. We are trying to synchronize all three facets of the problem.

The three military departments are in different stages of progress in making these improvements. The Department of the Army, for example, has recently reached what I consider an important milestone in this program, as indicated in the following excerpt from the report of the House Appropriations Committee on the defense appropriation bill for the fiscal year 1957 with respect to its $3 billion operations—and—maintenance appropriation. The House committee report stated:

> The Department has presented to the committee a proposed revision in the budget structure for the maintenance and operations appropriation to make it correspond more closely to the Command Management System currently being installed throughout the Army. This system, which will provide the basis for a cost-of-performance-type budget, is progressing rapidly and, it appears to the committee, will make possible the gathering of more accurate information on the cost of operations and closer financial control, in addition to giving the individual commanders and their staffs greater authority and flexibility in conducting their day-to-day activities within the limitations imposed by actual cost factors.

That is the end of the quotation in the committee report. If there were time other examples applying to the Navy and the Air Force could be cited.

In making these improvements in the financial system, special consideration is being given to the combat and combat-support forces of each service. The system can and must be simple for these activities, as well as fit into the entire system in each military department.

I might mention that double-entry bookkeeping is perfect for certain types of installations, but we have a question whether the double-

entry is right for an Army division at the 38th parallel in Korea under combat conditions, yet we have to integrate the different methods properly applicable to different functions into one package.

Nevertheless, much remains to be done because of the time it takes in such an immense complex and farflung establishment as the Department of Defense.

Because the problems cannot be dealt with except in consideration of every facet—management requirements, programing, budgeting, funding, property accounting, cost accounting, and so forth—we have developed a complete plan for our financial system.

While perhaps time would not permit this morning, we would be happy if during your later consideration of legislation, or at any time this committee would like to have it done, we could present the complete plan to you. It takes about an hour or an hour and 15 minutes and tries to indicate the type of management, budget, and accounting problems that we have in the Department of Defense and how we would propose to integrate it all into a single package. So if the committee chooses at any time in the near future, we will come up here or have you come down and give your our views as to how we think all the various facets of the financial problems can be integrated into one package.

The Chairman of the Hoover Commission Task Force on Budget and Accounting has told you that the Department of Defense has made improvements in financial management, and some of them have been mentioned in task-force reports of the Hoover Commission, including that on business organization, but it apparently did not appreciate the full magnitude and scope of the improvements and the nature of the complete system required. In that connection, it is regretted that the Task Force on Budgeting and Accounting spent so little time with the Department of Defense during their deliberations.

The Department of Defense agrees with the proposal for submitting cost-based budgets to the Congress with appropriation requests just as rapidly as it is feasible to do so, considering not only the rate of continuing progress in the installation of improved financial systems but also technical progress in the development of generally acceptable forms of budgets and reports for the Congress.

I would like to say that this can be done—and is being done without changing the basis of appropriations.

As stated by many observers, it has been true in the past that inadequate attention has been paid to costs in the Federal Government. It is possible, however, to budget for both obligations and costs within the present basis of appropriations in terms of obligational authority.

The cost basis of budgeting and accounting may be implemented in different ways, as illustrated by practices approved by the Congress for different agencies.

First, is the problem of relating cost-based budgets for operating activities and the budgets for procurement of consumable inventories. Cost-based budgets for operating activities must reflect the cost of materiel consumed. But cost-based budgets are also required for procurement and inventories of this materiel in advance of consumption. And both types of budgets must be related to appropriations and funds made available by the Congress.

In the Department of Defense, consumable inventories, or stocks on hand, amount to more than $15 billion including food, clothing, spare parts, fuel, lumber, medical supplies, and so on. Most of it is centrally procured and distributed by inventory managers. Much of it is even chargeable upon use to different appropriations, as well as decentralized activities, locally managed. There are also large amounts of sales to individuals and to other services.

The Department of Defense has found a valuable tool in the use of working-capital funds to finance procurement of these inventories and holding them until sale or issue for use—conforming to the organization needs in separate management of inventories and consumption.

It also means that obligations of consuming appropriations are actually budgeted directly on the basis of both cost and accrued expenditures—no reconciliations between costs, accrued expenditures, and obligations are required for these inventories, as is true in the case of some other agencies who do not use these funds. And yet the Congress actually exercises effective control over these working-capital funds through the power to appropriate or reduce capital requirements based upon the amounts justified for future plans—separate actions which would not be available to the Congress if budgeting and financing of inventories were combined with the cost of operations under the operating appropriations. And such combined budgeting and accounting would be quite complex—especially for laymen.

By laymen I mean generally the kind of people we must depend on to manage our business. Excellent ship commanders and excellent field commanders, excellent aviators—they are the people we must depend on to run it. We have to gear our systems so they can understand it in order to help them manage the business.

Similarly, the budgeting, programing, and accounting for the cost of production of goods and services—for example, ship construction and ship-repair work—is simplified and better management facilitated by the use of working capital funds for financing Defense industrial-type activities—for example, shipyards—which do work for the program managers—in the same manner as though the work were contracted for with private industry.

It might be worth while for the committee to consider, through the bill, the encouragement of the similar use of working-capital funds in other agencies, where appropriate.

Second, the bill makes no specific mention of the treatment of appropriation reimbursements or revenues under the accrued-expenditure basis of budgeting and accounting. Such appropriation reimbursements or revenues may be considered as deductions from costs or cost offsets in determining net costs. Doubtless it is intended this to be understood, although it would be helpful if this were clarified.

I only bring up this point because the present bill does not mention it specifically.

In the Department of Defense there are large revenues of such character resulting from goods and services furnished by one military department to another, to the mutual defense assistance program, or by one activity to another within the same department. While a great deal of these reimbursements are to activities financed under working-capital funds, there are many other activities financed by allotments of appropriated funds which also have them. These trans-

actions range from overhead expense allocations to other benefiting activities—such as motor-pool services and utility charges—to reimbursements for capital items of materiel delivered from stock or procured by one agency for another. This is related to economy in single-service procurement assignments, effective use of stocks in long supply, and cross-servicing to make effective use of existing service facilities and prevent establishment of duplicate service facilities.

When applied to the administrative control of appropriated funds, it is necessary to provide for funding each activity for these reimbursements, in order to permit financing of operations. And when appropriations and funding are upon an obligational basis, as at present, it is necessary to provide for funding for such reimbursements upon the same basis in order to finance long lead-time procurement and research and development work performed upon a cross-service basis. This means anticipation of reimbursements by procuring or performing activities, upon their customers' orders, for the procurement or performance lead-time—which may be beyond one fiscal year in many cases.

Third, we would like to comment upon the use of cost-based budgets and accrual accounting, in relation to budgets and reports based upon obligations in the financial control of programs, with particular reference to the needs of the Congress, as well as management within the executive branch.

While it is true that the obligation basis of budgeting and reporting is different than the basis of costs and accrued expenditures, the nature and extent of the differences in various circumstances are not fully understood.

In general, the difference is significant only in the case of long lead-time programs. When working capital funds are used, as in defense, for financing consumable inventories, long lead-time programs are confined to capital expenditures, like ships, aircraft and public works, and to research and development work.

In the case of capital expenditures, it should be understood that cost-based budgets means acquisition costs—not cost of consumption. And in the Government no depreciation costs on such property acquired under appropriated funds should be budgeted and appropriated also for the activities which use the property. The bill might be clarified if costs were so defined to exclude depreciation on facilities financed by appropriated funds.

There seems to have developed an impression that the two bases of budgeting and accounting, that is for obligations and costs are somehow in conflict—that you cannot have the 2 at the same time—that of the 2, the cost-basis is overwhelmingly the more important—that the Congress and the executive branch can do without the obligation basis. In my opinion, nothing could be further from the truth. The use of the obligation basis is indispensable, as demonstrated over the years, in congressional control of the purse. However, the same is true with respect to the Secretary of Defense or a secretary of one of the military departments.

This unfavorable impression of the obligation basis seems to be derived from statements made by some members of the accounting profession who have found the pattern of accounting in Government dif-

ferent from that area of industrial accounting to which they are accustomed.

Traditionally external financial reports of private enterprise emphasize the determination of periodic accrued revenues, related accrued costs, and resultant profits. Secondarily, statements of financial condition show assets, liabilities, and capital on a related basis. Legal commitments for the future delivery of goods and services are not generally reported because they do not involve current costs or assets on hand.

Yet for management purposes every well-managed industry has supplemental financial controls and accounts with respect to its commitments, based upon its current financial plans—for construction and facilities expansion, purchases of materials and supplies for production and merchandise for resale, research and development, advertising programs, etc. Not all businesses are equally well managed in this respect. And occasionally an industry is found in financial difficulty because of laxity in such controls.

I might add there is a business of very substantial size that is in difficulty now and one of the reasons they are in difficulty is what we would call lack of control over obligations.

In the Federal Government, the Congress could not maintain financial control over costs and expenditures, without controlling, through limitation of amounts and specification of purposes, the legal commitments (or obligations) to be incurred by the departments and agencies for each budget year. Such legal commitments require future expenditures and result in future costs.

And budgeting upon the true cost basis involves consideration of future, as well as current, costs of long-term projects to be undertaken, materiel to be contracted for, etc. Therefore, the accrued-expenditure basis of budgeting alone is incomplete cost budgeting, because it ignores or deemphasizes such future costs.

Earlier, I made the point that the accrued-expenditure basis of budgeting is feasible within the obligation basis. The obligation basis is related to the accrued-expenditure basis through a simple formula, as follows:

Obligations incurred equal accrued expenditures plus the increase in contracts and orders (or legal commitments) outstanding during the period (minus if it was a decrease).

The departments and agencies cannot do without budgeting control and accounting for total obligations and total costs of end items, even if it goes to the basis of accrued expenditures and costs incurred.

In the Department of Defense, billions of dollars are involved in contracts and orders outstanding at any time for procurement of aircraft, ships, guided missiles, production equipment, and related items and components; construction of public works; research and development work; procurement of services in overhauling and maintenance of aircraft, ships, and similar items; and so on. Budgeting, control, and accounting for these programs in terms of end item and project costs is essential. And budgeting for new procurement requirements each year must take into consideration materiel on order as well as on hand.

Neither the Department of Defense nor its contractors can operate without congressional authority to undertake contracts involving

future accrued expenditures. In fact, section 3679, Revised Statutes, forbids contracts and orders to be placed by any officer or employee of an agency except within the amounts authorized by appropriation or other similar authority.

Contract authority or other forms of obligational authority by the Congress are available in lieu of appropriation authority, but their past use has not been considered by many, including, we believe, some members of the Appropriations Committee, particularly in the House, to have been completely satisfactory. (See discussion, Department of Defense Appropriation Act 1957—hearings, House Appropriation Committee, pp. 978, 984, 985.)

In the past the use of separate contract authority and appropriations to liquidate that authority has tended to result in inadequate consideration of the impact of the authority granted upon future year's appropriations. Appropriation authority, which includes the authority to make payment as well as obligate is in my experience at least, considered more seriously. Both within the building and when we make our presentation to congressional committees.

This tendency is illustrated by an action just taken in one of the Appropriations Committees on the civil public works appropriations for the fiscal year 1957, according to a statement by the chairman on the floor of the House. In this instance $5 million was added to this bill in committee, without solicitation by the executive branch, to finance accrued expenditures for that year, for a list of projects for which the ultimate cost may be $300 million. (See statement, chairman of House Appropriations Committee, Congressional Record, May 22, 1956, p. 7830.)

I merely mention that as showing the proposed idea has many weaknesses. It isn't a panacea for all our ills.

I think it shows the weakness of ignoring obligational authority for the full cost of projects authorized for the future.

The Hoover Commission Report on Budget and Accounting recommended use of contract authority for long lead-time programs, if its recommendation were adopted to use the accrued-expenditure basis of appropriations. This recommendation appears in the discussion just preceding recommendation No. 7, but it is in the discussion and I think unless the report was read rather carefully, that point might have been missed. When we talk about contract authority or how this system would work, I think sometimes there is not a clear understanding of what is required in Government financial control. From the time of the Hoover Commission recommendation on the subject of the accrued expenditure basis budgeting I made extensive inquiry among those whom I understood were advocating the proposed plan as to how contract or obligational authority would be provided. To date I have seen no detailed explanation of a plan. I have heard answers such as "yes, problems exist, but I am sure capable people could work them out," and I have heard other answers such as "yes, perhaps some such authority would be necessary."

I read the Comptroller General's testimony of last Monday before this committee and I might say that that was the most definite statement on the subject that I have seen.

Senator KENNEDY. Whose testimony?

Mr. MCNEIL. The Comproller General in the testimony before this committee.

Senator KENNEDY. Yes.

Mr. MCNEIL. All I wanted to say was that his statement was the most definite outline of a plan I had seen.

He stated that the Hoover Commission recognized the necessity for forward planning authorizations which should be determined by the Congress as circumstances may warrant, adding that:

> Under the annual accrued expenditure basis of appropriation the initial authorizations would be stated in terms of broad authority to make commitments, whereas the annual appropriations would be stated much more definitely in terms of accrued expenditures as specific plans are developed.

I am puzzled about what is meant by "broad authority" in the first instance.

The Comptroller General added:

> It is essential that the initial authority, which may cover a forward period, sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and appropriations are practical when stated in terms of accrued expenditures.

Quite frankly, this statement puzzles me because one of the objectives of our budget improvements in the Department of Defense for the last several years has been to present more complete and precise information to the Congress, than would be contemplated under such a plan. And when we present requests for particular authority which requires expenditures in the future, our present basis for procurement requests—let's call it the shopping list—of aircraft, is quite precise in numbers and in cost together with a schedule of deliveries so when the committee approves the specific program, it isn't just broad general authority.

All I intended by bringing that up is that it did not seem that the proposal had been, as yet, rather well thought through, because I do think the future obligational authority must cover rather specific programs.

This kind of authority, that is contract authority, would be required for the Department of Defense in some form for almost all appropriation areas—not only those which cover exclusively long lead time programs. Normal operating appropriations involve a mixture of long lead time activities in some cases, and in most cases there are requirements for some degree of advance contracting.

If, however, the Congress decides to adopt the accrued expenditure basis of appropriations, as provided in S. 3897, it is recommended that section 1 (a) be amended to cover, in addition, the means to be provided for obligational authority, as well as the budget requirements therefor.

It is our view that such action is necessary in order to provide a complete bill. In any event, we strongly urge that section 1 (a) be amended to make it clear that the existing authority to include requests for contract authorizations in the budget is not being abrogated. In order to clarify this latter point, it is strongly recommended that S. 3897 be amended as follows:

At page 2, line 9, change the period to a semicolon and insert the following:

> *Provided*, That nothing in this subsection shall be construed to affect the authority of the President to submit requests for authorizations to create obligations in advance of appropriations.

I might add that that language has been worked out with the Bureau of the Budget as curing what was believed to be a language defect in the original provision.

We do not wish to be understood as opposing the ultimate adoption of the accrued expenditure basis of appropriations, if the Congress desires it. We have already indicated we believe the idea has merit. On our own initiative, as a matter of fact, we began in 1948 to study the subject and develop the problems involved.

Subsequently, in January 1953, we developed an outline plan for application of this method of appropriation and that was set forth in a memorandum for Senator Byrd submitted at his request. I believe a copy of that has been filed at an earlier session of this committee.

However, we would like to make a brief statement upon the advantages and disadvantages of the accrued-expenditure basis of appropriations.

First, it should be repeated that the use of this basis of appropriations is not essential to enable the use of this basis of budgeting and accounting. The advantages of the cost and accrued-expenditure basis of budgeting may be and are being obtained in any event. Therefore, let us look at only those additional advantages which are peculiar to this basis of appropriating funds.

Second, it should be understood that, in the main, any advantages would be limited to those appropriations which finance long lead time programs—otherwise, and particularly in our case where we are carrying our inventories under stock funds, there is little difference between obligations and accrued expenditures, and where operating budgets are submitted on the basis of cost of consumption of materiel financed initially under working capital funds, as in the Department of Defense, where this is particularly true.

Upon this basis, we can see certain possible advantages and as well certain disadvantages of the accrued-expenditure basis of appropriations.

We can see only one positive advantage. It would permit better understanding by many of the Government's financial operations. I think Senator Saltonstall mentioned that earlier this morning. It would be helpful if we find a better way for more people to have a better understanding of the Government's operations.

Appropriations would be more in line with estimated withdrawals from the Treasury. While not eliminating the large carryovers of contract or obligational authority, covering contracts or orders for future delivery, these credits would be separated from cash appropriated balances and differently described in terms of contract authority.

What I am really saying by that is that the amounts of carryover balances in our instance would not necessarily change by a single dollar. We would call it "contract authority" rather than the obligated portions or unobligated portions of "appropriation authority."

I think there are some disadvantages too and I would like to mention them just to put the problems in perspective for the committee.

1. Difficulty of estimating accrued expenditures for long lead time programs by each fiscal year. It is impossible to estimate with a reasonable degree of accuracy the accrued expenditures for a given fiscal year, contract by contract or item by item. Overall statistical estimates must be used for each program, as a whole, and this in itself would not provide a good method of budget justification.

I would like to emphasize that. We have very little difficulty in estimating our expenditures over a broad list of items, doing it in a lump-sum basis. As a matter of fact, our forecasts of expenditures in the last several years have been much closer than any business firm could ever forecast their expenditures. Frequently it runs within a half of 1 percent—looking a year ahead. But it cannot be done on a contract-by-contract, program-by-program basis. If you examine any single program, manufacture of F–100's, F–104's, the estimate to be reasonably safe will have to be on the high side.

However, when you take 30 or 40 different kinds of aircraft, fire control, and related items altogether, you know some things will slip, they won't come along all of them. We will have design problems, production problems, you have strikes, you also can have engineering modifications that slow down production. We can estimate that for an appropriation as a whole and do a pretty good job of it—but contract by contract we cannot do it. It just isn't in the cards.

2. It requires unnecessary work in separate administrative funding for accrued expenditures, as well as obligational authority, for every long lead-time program—with no compensating advantage.

And whether we call it obligational authority or commitments, under cash appropriations I see no way of doing it except by utilizing some similar method of control or the delegation of authority to make contracts.

3. Separate contract authority might be treated more lightly by the Congress in the granting than appropriations which also provide funds to finance it. I mentioned that previously and that was the sense of the discussion in the House Appropriation Committee referred to a moment ago. Other advantages have been alleged. I think they are controversial. It has been said:

1. Departments and agencies would not rush to obligate unused funds near the end of the fiscal years. I frankly don't see that would change. Whether it is in the form of contract authority or cash appropriations I don't see by this change that we have removed any incentive to rush to make contracts at the end of the year.

This would not be changed if contract authority were used. This must be controlled by other means whether the authority be in the form of appropriations or contract authority, as for example by internal management as well as the congressional limitation presently exercised, on the proportion of obligations to be placed in the last 2 months of the fiscal year.

2. It has been stated that this would not require Treasury funding of appropriations way in advance of expenditure. They don't now anyway. The Treasury Department's debt management is based on estimated future expenditures, which, as I mentioned a moment ago, has been quite accurate for a number of years.

3. It has been said that this would result in reduction of Federal expenditures because the Congress would review long lead-time expenditures twice—once for obligation, once for expenditure. Actually I think you might find the results might be of the reverse if too little emphasis were given to granting obligational authority for total costs.

I mentioned that with respect to the action of the House last week where the commitee added 5 million to an expenditure basis, yet the Government is committed to a $300 million program, without, I think,

full consideration. The Congress may review the performance and status of past programs without changing the basis of appropriations, and if it considers programs no longer justified, it may rescind appropriations even to the point of requiring contract terminations or cutbacks.

4. Then another statement has been made that perhaps it would expedite installation of the accrued expenditure basis of budgeting for the purposes of the Congress and the President as well as the agencies. We think this desirable result would be speeded effectively by this bill. What I am trying to do is give the pros and cons as we see it. We think that would be a good effect of this bill. But I want to say again this may be done without necessarily changing the basis for appropriation.

In fairness to the committee I should point out that since filing my statement I have received a number of inquiries from industry expressing concern as to how this proposed change would be made to work in their long-lead contracting. As I said, there isn't anything that I know of that outlines a clear-cut plan of how this long-lead time authority would be granted and administered. But it will cause some concern, although handled properly, it probably could be done.

For the foregoing reasons, as well as because time will be required to complete the installation of the cost and accrued-expenditure basis of budgeting and accounting and to determine the nature of all the problems of this basis of budgeting, we commend the provision in the bill, that if the basis of appropriation is to be changed, the President will establish the particular appropriations to be changed and when.

In conclusion, it is desired to state it is our conviction that savings which may result from changes provided in this bill will come about largely through better management within the executive branch, and secondarily through providing better data to the Congress, through a change in the process and I say that will be done without reference to changing the basis of appropriation.

Reading the testimony of Monday, I thought Mr. Rappaport of the Bureau of the Budget made a very good statement when he said the basic improvements will not be the $4 billion claimed by some people who have sent bulletins all over the Nation, it will come from an awful lot of hard work in better administration in the executive departments.

Senator KENNEDY. Thank you very much. In going over the bill section by section so we will be clear as to your suggestions, as I understand section 1 is satisfactory to you?

Mr. MCNEIL. Yes, sir.

Senator KENNEDY. In (b), page 2, line 6, you have suggested language on line 9?

Mr. MCNEIL. Yes, sir.

Senator KENNEDY. Don't you feel that the words in line 8—

to the maximum extent deemed desirable and practicable by the President,

really take care of the effect of your suggested amendment?

Mr. MCNEIL. I'm informed by counsel that it doesn't. I think in this case we would all want the language clear as to what is intended.

Senator KENNEDY. On page 14 of your testimony you say:

> Provided nothing in this subsection shall be construed to affect the authority of the President to submit requests for authorizations to create obligations,

while in the bill as it is, it says:

> The amount of incurred obligations in section 201—

et cetera—

> shall to the maximum extent, deemed desirable and practical by the President.

It seeems to me the authorization given to him is not substantially different than it already is.

Mr. MCNEIL. May I have Mr. Lanman answer that?

Mr. LANMAN. It is a technical problem, which I will try to simplify if I may. Section 101 of the Budget and Accounting Procedures Act of 1950, 31 United States Code, section 2, defines the term "appropriation" as follows:

> The term "appropriations" includes in appropriate context funds and authorizations to create obligations by contract in advance of appropriation projects or any other authority making funds available for obligation or expenditure.

Section 201 of the Budget and Accounting Act of 1921 as amended provides that the budget shall include:

> The estimated expenditures and proposed appropriations necessary in the judgment of the President. The bill would add a subsection to section 201, which would provide that the amount of appropriations referred to above shall be determined on an annual accrued expenditure basis.

There is doubt in my opinion and in the opinion of the Comptroller Counsel of the three military departments as to whether the new proposed subsection (b) when made applicable by the President will have the effect of canceling the definition of appropriations particularly the authorization to create obligation in advance of a proposition. Since it is understood that the utilization of the authority to create obligations in advance of cash appropriations is a key part of the plan for the implementation of this legislation, it is our view that the bill should be clarified in this regard and the language of the amendment proposed by the Department of Defense will accomplish this purpose and its proposal has been agreed to by the Bureau of the Budget.

Senator KENNEDY. Section 2 of the Budget and Accounting Act to which you referred says that—

> The term "appropriations" shall include in the appropriate context funds and authorizations to create obligations by contract in advance of appropriation—

that language stands. That language is not affected, is it?

Mr. LANMAN. We are afraid that it might be, Mr. Chairman, because then the subsection being added by this bill would say that the appropriations referred to above as defined in section 2 will be submitted on an accrued expenditure basis which raises the doubt as to whether that definition—when you move to the accrued expenditure basis—still can be used.

Senator KENNEDY. Well, we can have counsel take a look at it.

Mr. LANMAN. Yes, sir. We would say that in view of the importance of this aspect of the legislation, agreed to by everyone, that the bill itself should be clear on the point.

Senator KENNEDY. Mr. Shriver would like to ask you a question, please.

Mr. SHRIVER. Is it your belief, Mr. Lanman, that the implication in this language is serious enough to require an amendment to the bill or a clarification in the report?

Mr. LANMAN. This is always a difficult question. We know that we deal with legislative history often. However, we believe that since this aspect is so significant and might be subject to later interpretation which might not necessarily be governed by the legislative history—since resort to legislative history is not always permitted—we would prefer to have the language in the bill in order to resolve any possible doubt as to the authority to submit budget requests for obligational authority in advance of appropriations.

Mr. SHRIVER. You prefer an amendment to the bill as indicated in the statement which was presented to the committee this morning?

Mr. LANMAN. At the suggestion of the Bureau of the Budget we revised page 14 of the Department of Defense statement of views to include an amendment to this bill.

Mr. SHRIVER. Thank you, Mr. Lanman.

Senator KENNEDY. This has been cleared with the Bureau of the Budget and they agree with it.

Mr. LANMAN. Yes, sir.

Senator KENNEDY. Now going on to page 2, continuing on with the bill and particularly the amendments accepted, then we have line 10 is satisfactory, beginning with the section line 10 to 13. Do you have any other suggestions?

Mr. LANMAN. We have no detailed suggestion for other amendment.

Senator KENNEDY. The rest of the bill is agreeable to you provided this amendment is accepted.

Mr. MCNEIL. Yes, except that I would like the committee to understand our view. We don't think that you are going to get the profit out of it that a lot of people have said you are going to get.

Senator KENNEDY. But the people in the Department of Defense do not oppose the bill. You would like the amendment accepted?

Mr. MCNEIL. That's correct.

Senator KENNEDY. Does your support of the bill depend upon the committee accepting this amendment?

Mr. MCNEIL. In 2 or 3 other places in the statement, I made some suggestions for clarification but I think they are the type that could be taken care of in the committee report.

Senator KENNEDY. Thank you.

Senator COTTON. Is my understanding correct that already in the Department of Defense you are engaged in making changes in your internal system of budgeting and bookkeeping in accordance with the purpose of this bill, that is on a cost-accrual basis.

Mr. MCNEIL. Yes, sir.

Senator COTTON. And you have been developing that system for some time already.

Mr. MCNEIL. Yes, sir. I think Congress helped us greatly in 1949 when there was a rather complete pattern for a financial system outlined in title 4 of the National Security Act. It was an amendment to the original National Security Act. It laid the foundation and gave legislative authority to do a great many things which were years overdue. We thought, too, at that time that 5 years would clean

up our job. I am disappointed we did not quite make it. I know that for 3 years it was awfully difficult, and very understandable, for a lot of people to worry about hostilities in Korea a little more than they did on some of these problems. I would say, however, that we made quite tremendous progress, and it is only by taking, let us call it, a balanced sheet of where we stood in 1949 and 1950, and today does one realize what really tremendous progress has been made. For example, in all history the War Department had never had financial accounting for property. That is now the Army and the Air Force. The Army has done a tremendous job in that field. Yes, there are still some things wrong, but it is more like taking up a rough casing and filing off the rough spots to clean it up. For the first time in history, Army pretty well knows what it has and where it is.

I don't mean just major items; I mean all the way down the line. On their consumption type of material—by consumption type I am talking about the things you use from day to day, like spare parts, nails, and all those things, literally hundreds of thousands of items; the Army has already installed the stock fund principle, and used it, and here is the kind of a profit they have. If you will look at the appropriation bills submitted by that Department the last 3 years, you will find over $2½ billion proposed either for rescission or for return to the Treasury as a result of their improvement in inventory management on consumption-type items alone as a result of the work they started in 1952.

I think that is quite a tremendous job, and very few people know it. Right at the present time on consumption type of material there is over $9 billion under good accounting and merchandising control—and I add merchandising to it, because this is far more than an accounting problem—as you would find in Sears, Roebuck, and Montgomery Ward. In fact, we are applying the same general merchandising principles. Certainly we have some added problems. Such as to determine the quantity of mobilization reserves which slows down the rate of turnover on the surface, at least, but they are at least applying good merchandising principles which I think this country should be happy to see them do.

In another hearing on this general subject, people have testified that things are bad, that instead of getting better they are getting worse. The chamber of commerce man so testified. He frankly didn't know what he was talking about.

Senator KENNEDY. I think everybody is aware of the almost insuperable problem you have over at the Department of Defense. There is no valid basis for comparison to any private business for the job, particularly with these defense items which are so quickly consumable, normal items you deal with, the highly specialized nature of your programs. Considering the amount of money you are spending and all other factors I think your job is almost impossible, and we certainly appreciate all your problems.

Mr. MCNEIL. While several of us don't mind what such uninformed people say, there are hundreds of people in Defense that are working day and night, Saturdays and many Sundays—trying to do a job for Uncle Sam and are making real progress—and it disturbs me a bit when you see that going on and then people make careless or loose

statements. It bothers me a bit and doesn't help the morale of people who are trying to make it better.

Senator KENNEDY. We are only interested in trying to assist you. We are only anxious to do things which will make your job easier.

Senator COTTON. I thoroughly agree with what the chairman said. The purpose of my question was not in any sense to be critical of what you are already doing but that was the preface to a question that I wanted to ask. I assume from what you have just told me that the passage of this bill, the declaration of this policy by Congress, isn't going to necessitate any drastic changes in your internal system of budgeting and bookkeeping. You are already as fast as possible doing this very thing. Is that a generally correct summary?

Mr. MCNEIL. I wouldn't want to say we are that good, sir. We are headed in that direction and we are going a long way toward it.

Senator COTTON. How long do you think it would be in your department, which is of course the largest in the Government, how long a period would you estimate it would take to put into practice the system designed in this bill?

Mr. MCNEIL. On the first four provisions—that I said I thought would be very helpful both to the Congress, to us, and to the country, covering the accrual accounting and cost basis of budgeting—we are probably 70—and this is pulled out of the air—70 percent complete with our work of the last 5 years.

Senator COTTON. Mr. Brundage testified the day before yesterday that they thought it might take 5 years more to complete the transition.

Mr. MCNEIL. I think it would. I noticed another statement, 10 years. I would have to be more optimistic than that. I think the shorter period of time would be about right.

As to the other point, the way the bill is worded I know it is permissive for the President. I am not certain that the country or the Congress or ourselves or contractors are going to have a better working mechanism under the proposal to go to contract authority. I think that needs considerably more study and work and development of a well-worked-out plan before it is really done. I know that it is contemplated that if you did go to that that it would take time. But as I mentioned there is still, I think, some hazy thinking on that subject.

Senator COTTON. I understood that. Would the passage of this bill in its present form necessitate the setting up of duplicate systems of bookkeeping in your department? In other words, speaking as a layman, and having difficulty understanding all the technicalities of your testimony, does it mean that you have to run a set of books on the cost accrual basis and another one on your contract authority?

You wouldn't have to have a duplicate system.

Mr. MCNEIL. I think yes, we would, but I don't know that that could be called just duplication. It would be really splitting it apart and running it in two segments. I think where our problem comes is this. The submitting of a budget on an accrued basis for an establishment such as the Department of Defense where each activity that is managed separately must take into account a little piece of the inventory—what might just happen to be located there—and having that basis of accounting different than the basis on which appropriations are made, would require two systems of bookkeeping and accounts.

However, we believe that we have worked out a rather complete financial system covering appropriations, budgeting, and accounting as well as the management aspects in which we can achieve the results contemplated here under the accrued expenditure basis or budgeting, the cost basis, as well as the obligation basis and tie it back to the way in which Congress gives us our money. I think that is very important that we be able each year clearly and cleanly to tie it back. Now, this gets a bit technical, Senator, but I mentioned in the prepared statement that the House committee had approved and were rather complimentary on a proposed change in the Army appropriation structure for maintenance and operation, that is about a $3 billion appropriation, about one-twelfth of our total. In that new budget structure, the accounts are so set up that the way that Congress will appropriate the money permits the allocation of funds from a budget account under that appropriation to a field activity under the much-discussed one allotment system, permits the accrual basis of accounting to be used and yet permits report right back up the chain ending up with a report to Congress on the budget account and the appropriation as a whole, all without complicated reconciliations required by other proposals. In other words it can be one system. People have proposed systems that will not be one system, but two. That is why I suggested to this committee that if it had the time during this session or any time later we would like to have you take a look at what we believe makes for an integrated single system and achieve these purposes.

We would like to think that this language would permit us to continue that.

Senator COTTON. I can understand your suggestion as to the difficulty of estimating ahead year by year on many separate long-lead items accurately because of the element of uncertainty. But allowing for reasonable men in Congress and in the Bureau of the Budget to understand that and expect you to give yourself reasonable latitude and leeway by reasonable estimates to take care of eventualities in the forthcoming years, do you agree that it makes the Bureau of the Budget and the Congress follow more closely year by year these programs? That is correct; isn't it?

Mr. MCNEIL. I could work both sides of the street on that question. If I wanted to sell something to this Congress—I am going to be a bureaucrat for a moment, maybe I am regularly—the easiest way to sell the idea generally is sell it on the installment plan and show you how little it costs the first year.

Senator COTTON. That leads me to my last question. I noticed your illustration on page 13 of your statement. It seemed to me that you have in mind that the Bureau of the Budget and the Congress, if you come up and ask for just the money for the first year to build a carrier or for some public works, will fall for it because the money for the first year is comparatively slight and then they are committed for a long program. But I can't conceive of the most careless and the most thoughtless member of an Appropriations Committee—and I have sat on the Appropriations Committee in the House and probably I was that member—not asking and ascertaining when they grant you the first installment, how much it is going to cost for the whole job, nor can I conceive of any budget officer or representative of yours or any other department coming up and asking for the

first installment and not making it perfectly clear what the whole job is going to cost.

It seems to me that is a needless fear.

Mr. McNeil. Senator, I agree with you. And that is done. But human nature works in funny ways.

At one time I used to be in the automobile business. To get $3,000 for an automobile was quite a job. It wasn't much of a job to tell them it was $3,000 plus finance charges plus insurance, but what really counted was $500 down and $50 a month, that is the only way I made a sale. And as I say, there is nothing wrong about it. Let's say we presented a program for a hundred aircraft or an aircraft carrier, no one would hide the total cost, but would emphasize so much for the first year. It looks simpler and cheaper frankly than to say we want a hundred aircraft and they are a million dollars apiece, appropriate the hundred million.

While Mr. Humphrey doesn't raise the money that year, he only raises what we are going to spend, the fact remains that people still think of a cash appropriation as money out of pocket and they look at the total bill—it has been my experience—with a little more care than they do when they buy on the installment plan even though no one is hiding the facts as to total cost.

Senator Cotton. By the same token if you get the appropriation for a hundred aircraft and then assuming what is the fact that you are being a bureaucrat for the moment and putting something over on Congress, if you get the full appropriation for a hundred aircraft this year, it is a lot easier to come up next year and get an appropriation for another hundred aircraft, because the other is out of the way and the appropriation is out of the way and it is not in the minds of the committee.

Mr. McNeil. I could probably work both sides of the street on this one, as I told you.

I would like to add one thing if I may to this committee. There was a great deal of discussion on Monday in this hearing and in the press and other committees, about the carryovers and it is something that ought to be thought about constantly and is being thought about every day in our place and certainly every year in consideration of our budget.

I think it is germane to this discussion. The carryovers are today being scrutinized quite carefully by the Appropriations Committee. I will grant they did not do it as carefully 5 years ago, but today because of the size, magnitude and the nature of it, I would say they are spending about half the hearing time on analysis of the carryovers, which in effect is turning the coin over and doing the same as proposed in this bill.

Our carryovers are high, just to glance at them. But our carryovers are now justified in detail. There was a time we probably had looser practices in, let us call it posting what was considered an obligation of the Government, the value of a contract. I think, however, they are quite tight today. At the same time I think much better buying practices have been instituted within the Department.

There was a time when if we had the money to buy aircraft, Army equipment, ships, that there was an effort to obligate all or contract for all that money as soon as possible. There has, however, been a

real effort in the Department of Defense in the last 3 or 4 years not to obligate it the minute you got it, even though you had the letter of credit, but to obligate or contract for only the longest lead-time items first. It might be a minor item. In aircraft it might be the engines were months later, the airframe being placed under contract. It might be the fire control first or the engine 6 months later and the airframe 6 months later than that and perhaps the tires for that airplane 2 years later instead of buying it all at once and getting the easy-to-get material first.

We found we can make tremendous savings but most people don't realize these savings are now being made in Defense. I recall an instance 5 years ago where we took a look at aircraft being produced in a private plant. Under the old philosophy of placing under contract all the authority you had quickly—there was probably more than $200 million in inventory in that company for which we had made progress payments of the easier-to-make, easier-to-get items. That is a waste if you buy things before you need them. But it is more of a waste if you buy things on which there is a likelihood of a design change in the later stages which means scrapping the original purchases. We deliberately, if you want to call it that are carrying over certain moneys unobligated at the end of a year—on a planned basis—because we don't want to place under contract anything until we have to. It shows up as unobligated money. But the unobligated money is just what it takes to complete the programs actually approved and appropriated for by Congress. Carrying it one step further the unobligated amounts in the construction of ships appropriation will show a little over a billion dollars as of this June 30. That is precisely, or as near as anyone can estimate, the amount it takes to complete the ships that have been approved specifically and appropriated for specifically.

We have had exceptions in the past—the case of the Army; for example, where for 2 or 3 years we have not asked for any appropriation for Army major procurement. No appropriations have been requested, because the unobligated credit has been adequate to take care of the buying plan. Nevertheless, each year we have submitted to the Appropriations Committee the buying plan for the following year which would use up the credit. As a matter of fact we even offered 1 year certain amounts of rescission but nevertheless we did not use a nickel of it above the buying plan estimated and submitted.

Senator KENNEDY. This bill would prevent that situation from ever coming up, wouldn't it?

Mr. MCNEIL. No, I don't think it would because the conditions under which that arose involved the elimination of the tremendous requirements for combat consumption items in Korea at the end of the Korean period.

Senator KENNEDY. In your statement you went so far as to say instead of spending that money, you said you submitted a plan to the Appropriations Committee. I think you would of necessity have had to do that; otherwise the Appropriations Committee would have no control over the expenditure of this money and you would be free within large limitations to do what you want.

Mr. MCNEIL. The same would be true in any case, whether under accrued expenditures or cash authority.

Senator KENNEDY. Except you would have to come back to the Appropriations Committees, wouldn't you?

Mr. MCNEIL. If the contract authority was there, it would be identical with what we have now.

Senator KENNEDY. You still would have to come back to the Appropriations Committees even under the contract authority.

Mr. MCNEIL. But if amounts had been appropriated at a rate which would sustain very substantial combat operations, let us say in Korea and after the money had been appropriated, which was the case in Korea—you remember it was July when the cease-fire took place after the appropriation bills were passed—there would have been an excess there and we reported it in the same way as we would in the future.

It won't change the pattern we have been attempting to follow all along under the present system. Carryovers are not what a lot of people think they are, except in 2 or 3 cases in the past, the Army was 1. In the case of the Air Force 2 or 3 years ago there were certain aircraft that could not be delivered as early as originally planned. There was slippage in the program and we took the value as a credit against the next year's appropriation request. The same thing would happen in the future under contract authority. Last year in the case of the Navy, there was slippage in certain Naval aircraft schedules, new contracts were not placed as early and the value was applied as a credit and presented to the committe in exactly the same way as I think you would have to in the future under the contract authority.

Senator KENNEDY. Senator Martin?

Senator MARTIN. With reference to the financial system that you have been developing over the past few years, I understand you are still working on it and that you estimate it will take some little time to complete it.

Mr. MCNEIL. To complete the installation. We have the plan essentially complete.

Senator MARTIN. Would this bill impede in any way the completion of the system that you are developing?

Mr. MCNEIL. No, sir; it won't, if it is understood that we can carry out the plan within the framework of title IV, because the principles we are working toward are what are stated in the four main points that I said we thought would be helpful.

Senator MARTIN. Do you think the system which you have developed could work within the plan visualized in this bill provided we give you leeway enough to adjust to it?

Mr. MCNEIL. I think it does. I am not talking about the change in the appropriation method now, because that is a separate problem, but the other points we can work within because they are the principles to which we feel our overall system is presently designed to achieve. Except we feel the overall system we have planned and developed under title IV of the National Security Act covers a broader scope than does this bill. This deals with 3 or 4 details which are not inconsistent with what we are attempting to achieve under this broader scope of title 4.

Senator MARTIN. I understand that you believe the amendment you suggest here is rather important and should be adopted prior to our enactment of the bill before us.

Mr. MCNEIL. We believe so, sir, because it clears up what counsel sincerely believes is incomplete language in the bill. The proposed

amendment which was worked out with the Bureau of the Budget is one that was intended to carry out the purposes intended originally but would eliminate questions that would arise in the future as to whether it did or did not.

Senator MARTIN. The amendment would probably need some study and some advice from counsel. I am particularly concerned about the matter of getting this bill into law before adjournment this year which is not a very long time ahead, when it comes to final enactment of legislation of this far-reaching scope. I sincerely hope we can give enough study to this proposed amendment—on the other hand I don't want to stop the enactment of this bill before adjournment.

Mr. MCNEIL. It shouldn't.

Senator MARTIN. There will be other changes no doubt that will develop in the carrying out of this law. I can imagine we will have need for other amendments within the near future after this bill is enacted.

Mr. MCNEIL. I believe this is intended as a clarifying amendment. As I understand it from counsel, the reason is that there is another act which describes the word "appropriations" as meaning both contract authority and cash appropriations. Then this bill says in effect that contract authority be submitted on an accrued basis. I don't know how you do that. It is to clear up technical problems of that kind. It is not a substantive change.

Senator MARTIN. It is rather an important matter to clear up.

Mr. MCNEIL. We think so. But it is a technical change, not a substantive change.

Senator MARTIN. I have not any study on this particular amendment. This is the first I have seen it. I want to give it some thought but I don't want to stop action on the bill.

Mr. MCNEIL. Mr. Chairman, may I mention something that was brought up Monday during the questioning that was left hanging in the air a bit. There was some discussion on ships, as I read the testimony, wondering what you do when there are price increases, when there are changes of design in the course of construction and you ran along until finally nobody knew what to do. I can give you a specific example how this is handled and is being handled at the moment.

Only 3 or 4 months ago a contract was placed for 3 destroyers—all approved and within the price range and estimates as previously submitted and appropriated for. In the meantime over the winter months, there had been some very successful tests with missile installations for ships of that character. The new ships equipped with missiles are more costly. We had two choices. One which would indicate poorer management but would have been awfully simple to do, that is to complete the ships as originally scheduled within the prices and amounts appropriated, then later convert them to missile ships and spend some real money doing so.

Because they are in the initial stages—the contract was just let recently—we presented, in a supplemental request to the President and to the Congress, and the committee is presently considering adding $27 million to the shipbuilding program for the increased cost of the three ships under modern design. Instantly we know there is a change downward or upward we try immediately to make an adjustment in our request to the Congress.

Some people think that is rather a loosely handled affair. It isn't. It is quite precise. And the estimates are not just loose. In fact for 3 years the cost estimates on future construction have been remarkably good. But when we do have a change we have tried to present it and incorporate it in the design of ships or something else like that, so you don't wake up and find out you are in trouble later.

Senator MARTIN. We have been forced to develop a new system in the past 16 years or so, that is, since the outbreak of World War II. We have had quite different obligations facing us in Congress and in the Defense Department to meet things before they happen.

Present conditions are clearly beyond any concept we had at the outbreak of World War II. With the atomic age coming along, we don't want to have laws that we enact here in Congress impede in any way the effectiveness of your work as a defense organization. I have a real concern on that matter.

Mr. MCNEIL. Senator, under the language and as we understand the bill we can work under it. However, if the bill were interpreted as I read certain of the testimony on Monday we would be in difficulty although I don't think that is the way it would work out. There was the inference in certain testimony that contract authority for certain things be provided for specific quantities or for specific things and a specific design to be undertaken a year or two hence. With the rapidly changing picture that we have in defense, never was the transition from the old to new weapons so rapid, we cannot do it. The present system or contract authority based on the present system could be made to work, because with the Appropriation Committees we try to keep them fully informed of any changes of substance in the program, but from year to year as we go along and manage the business, we frequently don't buy as much 105-millimeter ammunition as was contemplated in the budget but maybe there are a few more rounds of 155 millimeter but we still stick to the major purpose for which it was appropriated.

Contract authority—if that principle were used—would have to be just as flexible in order to make things go in our present day and age.

Senator MARTIN. The consideration of obligational authority is not going to be completely cured by this bill, I'm sure.

Mr. MCNEIL. No, sir.

Senator MARTIN. The rapid expansion of obligational authority will require a lot of study by the Congress to determine just how far we can go without impeding the effectiveness of defense and without impeding the operation of future Congresses.

Mr. MCNEIL. Correct.

Senator MARTIN. We are caught between those two fires and it is not an easy problem. I don't think we can do it abruptly. We must make sure that we do not hamper future Congresses and above all that we do not hamper the effectiveness of our defense.

Mr. MCNEIL. Correct, sir. This may seem perhaps to be a trite statement but I think most of us in defense believe that if we can so run our business so as to have the confidence of the country and let's call it its Board of Directors here on the Hill, and if we can deal with our appropriations committees very much like we as individuals would have to deal with a loan committee of a bank to keep our credit good,

we can make the wheels go round for the good of Uncle Sam and everybody concerned.

Senator MARTIN. I have heard some wonderful reports about the work you have done in the Defense Department and I am pleased with what you have done. I will need more information and I appreciate especially your invitation to come over and look over your system. I hope the time factor here on the Hill will permit the entire subcommittee to accept your invitation. I need such information seriously because I want to know whether what you are doing now can be dovetailed with what we are planning in this bill.

Mr. MCNEIL. Thank you for your kind remarks. I would be very happy to at any time that it is convenient to the subcommittee either to come up here or have you come down there. If the staff will let us know, we will arrange it.

Senator MARTIN. We need the information you are prepared to give us.

Mr. MCNEIL. Thank you, Senator.

Senator KENNEDY. We appreciate your coming up, Mr. McNeil, and I second what Senator Martin has said about the feeling of the subcommittee for what you are trying to do over there.

We are grateful to the other gentlemen for coming here, and I wonder if Mr. Rappaport, Counsel for the Bureau of the Budget would come up and comment on the suggestion.

Perhaps your Counsel could stay here and try to get that matter clarified. Then the subcommittee will conclude.

We just wanted to get a brief statement from you on the proposed suggested amendment, Mr. Rappaport.

Do you believe that it is necessary or do you believe that the language in lines 6, 7, 8, and 9 takes care of the matter?

STATEMENT OF PERCY RAPPAPORT, ASSISTANT DIRECTOR, ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING GROUP, BUREAU OF THE BUDGET—Resumed

Mr. RAPPAPORT. I can report this. Our Counsel has advised me that the language of the bill as it is now written does not require clarification. However, if the committee wishes to accept the amendment offered by the Defense Department, we would have no objection.

Senator KENNEDY. Senator Martin, do you have any questions?

Senator MARTIN. That is important information for us.

Senator KENNEDY. Do you want to comment on that Mr. Lanman?

STATEMENT OF MAURICE H. LANMAN, ASSISTANT GENERAL COUNSEL, FISCAL MATTERS, DEPARTMENT OF DEFENSE—Resumed

Mr. LANMAN. Only to refer to the Bureau of the Budget's letter of June 1 wherein they indicated that this was one of the points that the committee might want to consider for clarification in the bill.

Senator KENNEDY. Thank you. I understand that there is an attorney here from the General Accounting Office. Would you care to comment? Do you feel that this language is necessary?

STATEMENT OF JOHN W. MOORE, ATTORNEY, GENERAL ACCOUNTING OFFICE—Resumed

Mr. MOORE. I do not feel that the language is necessary, Senator. I have helped draft the bill. I have no doubt in this matter. The language of the bill does not conflict with the definition of the term "appropriation."

Senator MARTIN. Will the proposed amendment be harmful in any way?

Mr. MOORE. I haven't studied the language of the amendment, Senator, I don't feel I can answer that question now.

(At the conclusion of the hearings, the chairman requested the Comptroller General of the United States to give the committee a formal decision on this matter. The Comptroller General's decision follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, June 6, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate

DEAR MR. CHAIRMAN: During the hearings this morning on S. 3897, representatives of the Department of Defense suggested that the language of the proposed section 201 (b) of the Budget and Accounting Act, 1921, might be clarified by the insertion of the following proviso at the end of the paragraph in lines 6 through 9 of page 2 of S. 3897: "*Provided*, That nothing in this subsection shall be construed to affect the authority of the President to submit requests for authorizations to create obligations in advance of appropriations."

The Defense representatives apparently felt that the present language of lines 6 through 9 might possibly be construed as repealing by implication the authority for requesting contract authorizations contained in the present section 201 of the Budget and Accounting Act, 1921. It is our considered opinion that there is no conflict whatsoever between the language of the new subsection 201 (b) proposed to be added by this bill and the present section 201 of that act, and that the proposed section 201 (b) could not be construed as restricting the authority to request contract authorizations in the present section 201.

Section 2 of the Budget and Accounting Act, 1921, as amended, defines the term "appropriation" as used in that act as follows:

"The term 'appropriations' includes, *in appropriate context*, funds and authorizations to create obligations by contract in advance of appropriations, or any other authority making funds available for obligation or expenditure." (Italic supplied.)

The use of the words "in appropriate context" contained in that definition makes it clear that the term "appropriation" may mean (1) the appropriation of funds; (2) authorizations to create obligations by contract in advance of appropriations (commonly referred to as "contract authority"); or both (1) and (2). As the term "appropriation" is used in the present section 201 (d), which under this bill would be section 201 (a) (5), and section 203, it clearly means both appropriation of funds and contract authority. As that term is used in line 6, page 2, of the bill, however, it is used in relation to the determining of amounts of proposed appropriations on an accrued expenditure basis. As the term "appropriation" is used in that context, it can mean only the appropriation of funds. Since the language in lines 6 through 9, page 2 of the bill relates only to the appropriation of funds, it cannot be viewed as conflicting with the authority in the present section 201 to include in the budget proper requests for authorizations to create obligations in advance of appropriations. The Appropriation Committees of the Congress will thus have the tools to review both the complete programs for which contractual authorizations are requested or have been granted as well as the amount of funds required to meet the expenditures which will accrue in the budget year.

Moreover, it should be noted that the legislative history of this bill already has made it clear that contractual authorizations for long lead-time programs will be required when the appropriations therefor are stated on an annual accrued

expenditure basis. This was pointed out in the Hoover Commission Report on Budget and Accounting.

It thus seems very clear to us that the existing authority to include requests for contract authorizations in the budget would not be abrogated by this bill and that the clarifying language suggested by the Department of Defense is unnecessary.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

Senator KENNEDY. I want to thank you all.

I would like to place in the record of the hearing a letter from Senator Byrd indicating his support of S. 3897. We are particularly glad to have his letter. He is a cosponsor of the bill, and has been interested in this matter for many, many years.

(The document referred to is as follows:)

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
June 5, 1956.

Hon. JOHN F. KENNEDY,
United States Senate, Washington, D. C.

MY DEAR JACK: As I have indicated before I deeply regret being unable to appear before the subcommittee on the Kennedy-Payne bill (S. 3789), but I should like the record to show my deep interest in the proposal.

I am especially interested in the accrued expenditure appropriation provisions in the bill which I believe would be a long step toward the objective of recapturing legislative control over Federal expenditures.

With my high personal regards,

Faithfully yours,

HARRY F. BYRD.

Senator KENNEDY. I would also like to place in the record a letter from Congressman Reuss, of Wisconsin, along with a statement that he submitted to the subcommittee.

(The document referred to is as follows:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., June 4, 1956.

Senator JOHN KENNEDY,
Chairman, Subcommittee on Reorganization,
Senate Government Operations Committee.

DEAR SENATOR KENNEDY: I should appreciate the insertion of the enclosed statement in the record of the current hearings on S. 3897.

Sincerely yours,

HENRY S. REUSS,
Member of Congress.

STATEMENT BY HON. HENRY S. REUSS, A REPRESENTATIVE IN CONGRESS FROM THE FIFTH DISTRICT OF WISCONSIN

Mr. Chairman, I wish to express my support of S. 3897 because of my strong belief that the utmost efficiency and economy in Government operations are not only compatible with, but are absolutely essential to, effective functioning of the enormous range of activities of the Federal Government. In the House of Representatives, I have introduced H. R. 11052, similar to S. 3897, and likewise based on the recommendations of the Hoover Commission.

The fundamental purposes of S. 3897 are:

(1) To make the Bureau of the Budget responsible for developing comprehensive reports, other than purely fiscal reports, showing the financial results of the Government as a whole each year;

(2) To require the use of cost-based budgets and accrual accounting in all Government agencies;

(3) To place Bureau of the Budget personnel in Government agencies to keep a careful review of the budgeting process.

These are etchnical matters developed by experts but their aim is very simple: to make sure that our fiscal control system operates as efficiently as possible. By tightening up the budgeting and accounting processes, I believe that we could save many millions of dollars. We could avoid such costly mistakes as the recent waste of $250 million on unusable Navy fighter planes which apparently was caused by lack of adequate regular review of ongoing programs.

I hope this committee will give its prompt and sympathetic consideration to S. 3897.

Senator KENNEDY. Also a letter from Mr. Miles Kennedy, representing the American Legion.

(The document referred to is as follows:)

THE AMERICAN LEGION,
WASHINGTON HEADQUARTERS,
Washington, D. C., June 1, 1956.

HON. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Senate Committee on Government Operations,
Senate Office Building, Washington, D. C.

DEAR SENATOR KENNEDY: Referring to the hearings scheduled to be held on June 4–6, 1956, by the Subcommittee on Reorganization of the Senate Committee on Government Operations on the bills S. 3897, S. 3199, S. 2369 and S. 2480, I would like to submit the following on behalf of the national organization of the American Legion.

The bills S. 2369 and S. 2480 are identical and are intended to provide for improving accounting methods in the executive branch of the Government. The American Legion does not oppose the objective sought to be accomplished by the bills. We feel, however, that the subcommittee should make it clear that, with reference to personnel selected by the executive agencies, the function of the Bureau of the Budget is to be advisory rather than directory. We make particular reference to sections 120 (b) (4) and 121 (a). It would seem contrary to sound administrative practice to weaken the authority and responsibility of the executive agency by imposing upon it the mandate of another agency in personnel affairs. The proper role of the Budget Bureau is, we believe, in the field of methods and procedures.

With reference to section 121 (a), line 5, page 3, we suggest that the language be rephrased to make it clear that the Comptroller is to be responsible to the head of the executive agency and not to the Assistant Director for Accounting.

I would appreciate it if this letter could be given consideration by your subcommittee in connection with your deliberations on these bills and also incorporated in the record of the hearings thereon.

Thanking you for your cooperation, I am,

Sincerely yours,

MILES D. KENNEDY, *Director.*

Senator KENNEDY. The record will be kept open for a few days for inclusion of statements or letters which may arrive after these hearings have concluded.

The subcommittee will now conclude its hearings and go to executive session.

(Whereupon at 11:50 a. m. the subcommittee proceeded to further business.)

APPENDIX A

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., June 21, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: As requested during the hearings held by your committee on S. 3897, I am enclosing a comparison of an appropriation request on the present obligation basis with the way it might be presented on the accrued expenditure basis.

Sincerely yours,

PERCY RAPPAPORT, *Assistant Director.*

Comparison of existing obligation appropriation presentation with proposed accrued expenditure appropriation presentation for U. S. Coast Guard operating expenses appropriation

PRESENT OBLIGATION BASIS

	1955 actual	1956 estimate	1957 estimate
Obligations by activities:			
1. Vessel operations	$42,666,260	$44,214,795	$44,654,272
2. Aviation operations	13,953,945	15,477,086	16,844,687
3. Shore stations and aids operations	34,431,049	35,578,710	36,387,611
4. Repair and supply facilities	14,074,989	16,563,394	16,166,086
5. Training and recruiting facilities	7,627,524	8,134,328	8,358,518
6. Administration and operational control	19,378,047	20,097,810	20,178,441
7. Other military personnel expenses	14,534,260	14,454,701	15,842,199
8. Supporting programs	8,130,594	6,918,176	6,918,176
Total obligations	154,796,668	161,439,000	165,350,000

PROPOSED ACCRUED EXPENDITURE BASIS

	1955 actual	1956 estimate	1957 estimate
Costs by activities (A):			
1. Vessel operations	$44,013,698	$44,845,777	$45,285,254
2. Aviation operations	15,261,137	17,387,949	18,405,432
3. Shore stations and aids operations	34,865,324	36,007,550	36,816,451
4. Repair and supply facilities	14,231,320	15,872,072	15,474,764
5. Training and recruiting facilities	7,712,243	8,389,657	8,613,857
6. Administration and operational control	19,593,279	20,111,102	20,191,733
7. Other military personnel expenses	14,707,472	14,109,372	15,496,870
8. Supporting programs	9,391,789	7,664,847	7,664,847
9. Adjustment of prior year costs	815,071	----------	----------
Total costs	160,591,333	164,388,326	167,949,208
Relation of costs to appropriations (B): Decrease (−) in selected resources available for future application to activity costs [1]	−4,941,672	−4,197,334	−3,005,900
Total accrued expenditures	155,649,661	160,190,992	164,943,308
Less expenditures financed by prior year appropriations [2]	−11,254,980	−10,255,389	−11,510,000
Accrued expenditures requiring appropriation (C)	144,394,681	149,935,603	153,433,308

See footnotes at end of table.

Comparison of existing obligation appropriation presentation with proposed accrued expenditure appropriation presentation for U. S. Coast Guard "Operating expenses" appropriation—Continued

PROPOSED ACCRUED EXPENDITURE BASIS—Continued

	1955 actual	1956 estimate	1957 estimate
Contract authorization (D):			
Total contract authority required	$10,917,305	$11,503,397	$11,916,692
Orders and contracts issued [3]	10,401,987	11,503,397	11,916,692
Unused authority lapsed	515,318		

[1] This line would be supported by a supplementary schedule that would show the year-end balances, together with the change in balances from year to year, of stores, advances and other resources available for use in carrying out programs in succeeding years.

[2] This adjustment would be necessary only during the period of conversion from obligation appropriations. It is needed during this period because prior appropriations made on an obligation basis also gave the agency authority to expend in the same amount. Thus, all goods received that were ordered by Coast Guard under obligation appropriations (the amounts shown on this line) do not need an expenditure authorization from Congress. This adjustment would not appear in an accrued expenditure appropriation schedule when the agency completes the conversion.

[3] This line would be supported by a supplementary schedule that would identify the subsequent years in which the goods ordered under contract authority would be delivered.

POINTS OF SIGNIFICANCE IN COMPARING AN OBLIGATION APPROPRIATION PRESENTATION WITH AN ACCRUED EXPENDITURE APPROPRIATION PRESENTATION

A. Under an accrued expenditure appropriation—

(A) Activities would be shown in terms of goods and services consumed—a more accurate indicator of the size of proposed programs.

(B) The planned use of inventories and other available resources would be brought out—together with the balances of such resources on hand in the agency at the end of each year.

(C) The appropriation on an annual accrued expenditure basis would eliminate the large carryover of appropriation balances.

(D) Separate congressional approval would be needed for authority to place orders in one year to insure the delivery of goods in subsequent years. Each year Congress would review the programs for which contract authority was previously granted. Amounts required for the payment of goods and services to be received in the budget year, which were ordered in previous years under contract authority, would be included in the request for appropriation on the accrued expenditure basis.

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BUDGET AND ACCOUNTING

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

H. R. 9402, H. R. 7209, H. R. 7338, H. R. 8236, H. R. 11052, and H. R. 11526

BILLS TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS

MAY 21, 22, JUNE 12 AND 19, 1956

Printed for the use of the
Committee on Government Operations

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Elmer W. Henderson, *Counsel*

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APPENDIX

Budget and Accounting

BUDGET AND ACCOUNTING

MONDAY, MAY 21, 1956

House of Representatives,
Executive and Legislative Reorganization Subcommittee of the Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to notice, at 10:10 a. m., in room 1501, New House Office Building, Representative William M. Dawson (chairman) presiding.

Present: Representatives Dawson (chairman), Brown, and Jonas.

Also present: Representative Lipscomb; Elmer W. Henderson, subcommittee counsel; Orville S. Poland, general counsel; William Pincus, associate general counsel; Ann E. McLachlan, clerk, of the subcommittee staff; and Herbert Roback of the Military Operations Subcommittee.

Chairman Dawson. Will the subcommittee kindly come to order?

We are a little bit late in that we had a message from one of the members of our subcommittee who could not be present this morning. He is in Florida. Congressman Dante Fascell became a father at 4 o'clock this morning. He called up to say he could not make it.

Mr. Jonas. He should be in Florida.

Chairman Dawson. This morning the Subcommittee on Executive and Legislative Reorganization of the House Committee on Government Operations begins hearings on a number of measures involving budget and accounting procedures, and at the same time will review the recommendations of the Hoover Commission on budget and accounting.

The bills before us are:

H. R. 9402, by Congressman Lipscomb.

H. R. 7209, by Congressman Frelinghuysen.

H. R. 7338, by Congresswoman Church.

H. R. 8236, by Congresswoman Church.

H. R. 11052, by Congressman Reuss.

H. R. 11526, by Congressman Rogers.

All of these bills have put into legislative form various recommendations of the Hoover Commission and are designed to improve governmental budgeting and accounting methods and to provide for comprehensive reports by the Bureau of the Budget.

Subcommittee members have already been provided with a committee print embodying the comments of the executive agencies on the bills before us and on the Hoover Commission recommendations.

(The House bills referred to are as follows:)

[H. R. 9402, 84th Cong., 2d sess.]

A BILL To improve governmental budgeting and accounting methods and procedures, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 213 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 21), is amended by adding at the end thereof the following: "The Director shall utilize information obtained under this section, among other purposes, to prepare comprehensive reports, other than purely fiscal reports, showing the financial results of the activities of the departments and establishments. Such reports shall be prepared on a fiscal year basis, or at such shorter intervals as the Director may deem practicable, and shall be transmitted to the President and to the Congress."

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is amended to read as follows:

"SEC. 216. (a) For purposes of administration and operation, cost-based budgets shall be used by all departments and establishments and their subordinate units. Fund allocations within the departments and establishments shall be made on the basis of such cost budgets.

"(b) Subordinate operating units within a department or establishment shall submit quarterly performance reports to the head of such department or establishment, and the head of each department or establishment shall submit a report to the bureau, not later than September 30 of each year, on the conduct of its operations in the preceding fiscal year. The Bureau shall, on the basis of such reports, submit an annual performance report to the President for all the departments and establishments.

"(c) Requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau by the head of any department or establishment shall be prepared on a cost basis and shall include such data and be submitted in such manner as the President may determine in accordance with the provisions of section 201 of this Act.

"(d) The Budget, required by section 201 of this Act to be transmitted to the Congress, shall contain information on program costs and accomplishments, and a review of performance by organizational units whenever such units do not coincide with performance budget classifications."

(c) Title II of such Act, as amended, is amended by adding at the end thereof a new section as follows:

"SEC. 218. The Director, under such rules and regulations as the President may prescribe, shall designate and assign qualified personnel of the Bureau to serve in the principal departments and establishments, as determined by the President, for the purpose of maintaining a continuous review by the Bureau of the Budget preparation and administration within any such department or establishment, and to further assist the Bureau in carrying out its managerial functions and responsibilities. Not more than two persons for each principal subdivision of a department or establishment shall be assigned by the Director to any one department or establishment, and, insofar as practicable, persons so assigned to any department or establishment shall possess the combined skills of the statistician, cost accountant, administrative expert, and program analyst. No such person shall be so assigned to any department or establishment for more than two consecutive years."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) Section 104 of the Budget and Accounting Procedures Act of 1950 (31 U. S. C. 18a) is amended by adding at the end thereof a new sentence as follows: "Each executive agency of the Government shall, under the general supervision of the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, consistency in its organizational structure, budget classifications, and accounting systems."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show currently, completely, and clearly the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets and agency reports as required by section 216 of the Budget and Accounting Act, 1921. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Such Act is further amended by adding after section 119 thereof the following new sections:

"STAFF OFFICE OF ACCOUNTING

"SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting, to be appointed by the President, and to receive compensation at the rate of $ per annum.

"(b) It shall be the duty of the Assistant Director for Accounting—

"(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

"(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

"(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

"(5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

"COMPTROLLERS FOR EXECUTIVE AGENCIES

"SEC. 121. (a) The lead of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a Comptroller who shall be directly responsible to him, and who shall have the following functions and duties—

"(1) to supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 hereof;

"(2) to direct the recruitment, training, and development of qualified accounting personnel for such agency;

"(3) to develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies;

"(4) to interpret and advise upon significant aspects of the financial reports of the agency; and

"(5) to direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets."

SIMPLIFICATION OF ALLOTMENT SYSTEM FOR ALLOCATING FUNDS

SEC. 3. It is the intent of the Congress that each executive agency, as defined in section 118 of the Budget and Accounting Procedures Act of 1950, shall take whatever steps are necessary to simplify the allotment system for allocating funds to operating units within such agency, and in making such simplification each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one allotment for each appropriation affecting such unit.

SINGLE AGENCY ACCOUNTS

SEC. 4. (a) Each executive agency, as defined in section 118 of the Budget and Accounting Procedures Act of 1950, shall, in accordance with principles and standards prescribed by the Comptroller General, maintain a single account under each appropriation title or fund.

(b) This section shall take effect on the first day of the first fiscal year commencing after the date of enactment of this Act.

JOINT STUDY BY BUREAU OF BUDGET AND GENERAL ACCOUNTING OFFICE

SEC. 5. (a) The Director of the Bureau of the Budget and the Comptroller General shall jointly undertake a study and investigation to determine—

(1) what steps can be taken to eliminate (A) duplicate accounts within the Treasury Department, and (B) duplicate accounting as between the Treasury Department and the other departments and agencies of the Government; and

(2) the adequacy of internal auditing in the excutive departments and agencies of the Government.

(b) The Director of the Bureau of the Budget and the Comptroller General shall report the results of their study and investigation together with such recommendations as they deem appropriate, to the Congress not later than two years after the date of enactment of this Act.

[H. R. 7209, 84th Cong., 1st sess.]

A BILL To provide for improving accounting methods in the executive branch of the Government, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Budget and Accounting Procedures Act of 1950 is hereby amended by adding after section 119 thereof the following new section:

"STAFF OFFICE OF ACCOUNTING

"SEC. 120 (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director for Accounting, to be appointed by the President, by and with the advice and consent of the Senate, and to receive compensation at the rate of $15,000 per annum.

"(b) It shall be the duty of the Assistant Director for Accounting—

"(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

"(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

"(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch the report on their progress;

"(4) to stimulate the building of competent accounting and auditing orgaizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

"(5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

"COMPTROLLERS FOR EXECUTIVE AGENCIES

"SEC. 121. (a) The head of each executive agency is authorized and directed with the advice of the Assistant Director for Accounting, to provide for the appointment of a Comptroller who shall be directly responsible to him, who shall receive compensation at the rate of $15,000 per annum, and who shall have the following functions and duties:

"(1) To supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with

the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 hereof;

"(2) To direct the recruitment, training, and development of qualified accounting personnel for such agency;

"(3) To develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies;

"(4) To interpret and advise upon significant aspects of the financial reports of the agency; and

"(5) To direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets."

[H. R. 7338, 84th Cong., 1st sess.]

A BILL To provide for improving accounting methods in the executive branch of the Government, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Budget and Accounting Procedures Act of 1950 is hereby amended by adding after section 119 thereof the following new sections:

"STAFF OFFICE ACCOUNTING

"SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director for Accounting, to be appointed by the President, by and with the advice and consent of the Senate, and to receive compensation at the rate of $ per annum.

"(b) It shall be the duty of the Assistant Director for Accounting—

"(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

"(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

"(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

"(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

"(5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

"COMPTROLLERS FOR EXECUTIVE AGENCIES

"SEC. 121. (a) The head of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a Comptroller who shall be directly responsible to him, who shall receive compensation at the rate of $ per annum, and who shall have the following functions and duties:

"(1) To supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 hereof;

"(2) To direct the recruitment, training, and development of qualified accounting personnel for such agency;

"(3) To develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies;

"(4) To interpret and advise upon significant aspects of the financial reports of the agency; and

"(5) To direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets."

[H. R. 8236, 84th Cong., 2d sess.]

A BILL To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Budget and Accounting Procedures Act of 1950 is hereby amended by adding after section 119 thereof the following heading and new section:

"COMPREHENSIVE REPORTS OF EXECUTIVE AGENCIES

"SEC. 120. (a) The Director of the Bureau of the Budget is authorized and directed to prepare or cause to be prepared for transmission to the Congress during the first days of each regular session a comprehensive report (other than a purely fiscal report) with respect to the financial results of the activities of all branches of the Government and of each executive agency thereof. Each such report with respect to an executive agency shall contain information, in such detail as the Director shall prescribe, relating to all the operations and activities of such agency, including the costs of such operations and activities, the assets and liabilities of the agency, the extent of its contingent liabilities, if any, and such other pertinent data and information as the Director determines to be necessary to carry out the purposes of this section.

"(b) The head of each executive agency shall furnish such information as the Director of the Bureau of the Budget may require for the purpose of preparing the comprehensive reports herein provided for."

SEC. 2. There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

[H. R. 11052, 84th Cong., 2d sess.]

A BILL To improve governmental budgeting and accounting methods and procedures, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 213 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 21), is amended by adding at the end thereof the following: "The Director shall utilize information obtained under this section, among other purposes, to prepare comprehensive reports, other than purely fiscal reports, showing the financial results of the activities of the departments and establishments. Such reports shall be prepared on a fiscal year basis, or at such shorter intervals as the Director may deem practicable, and shall be transmitted to the President and to the Congress."

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is amended to read as follows:

"SEC. 216. (a) For purposes of administration and operation, cost-based budgets shall be used by all departments and establishments and their subordinate units. Fund allocations within the departments and establishments shall be made on the basis of such cost budgets.

"(b) Subordinate operating units within a department or establishment shall submit quarterly performance reports to the head of such department or establishment, and the head of each department or establishment shall submit a report to the Bureau, not later than September 30 of each year, on the conduct of its operations in the preceding fiscal year. The Bureau shall, on the basis of such reports, submit an annual performance report to the President for all the departments and establishments.

"(c) Requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau by the head of any department or establishment shall be prepared on a cost basis and shall include such data and be submitted in such manner as the President may determine in accordance with the provisions of section 201 of this Act.

"(d) The Budget, required by section 201 of this Act to be transmitted to the Congress, shall contain information on program costs and accomplishments,

and a review of performance by organizational units whenever such units do not coincide with performance budget classifications."

(e) Title II of such Act, as amended, is amended by adding at the end thereof a new section as follows:

"SEC. 218. The director, under such rules and regulations as the President may prescribe, shall designate and assign qualified personnel of the bureau to serve in the principal departments and establishments, as determined by the President, for the purpose of maintaining a continuous review by the Bureau of Budget preparation and administration within any such department or establishment, and to further assist the bureau in carrying out its managerial functions and responsibilities. Not more than two persons for each principal subdivision of a department or establishment shall be assigned by the director to any one department or establishment, and, insofar as practicable, persons so assigned to any department or establishment shall possess the combined skills of the statistician, cost accountant, administrative expert, and program analyst. No such person shall be so assigned to any department or establishment for more than two consecutive years."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) Section 104 of the Budget and Accounting Procedures Act of 1950 (31 U. S. C. 18a) is amended by adding at the end thereof a new sentence as follows: "Each executive agency of the Government shall, under the general supervision of the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, consistency in its organizational structure, budget classifications, and accounting systems."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(e) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show currently, completely, and clearly the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets and agency reports as required by section 216 of the Budget and Accounting Act, 1921. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

Chairman DAWSON. We will call as our first witness, Congresswoman Church.

Mrs. CHURCH. Thank you, Mr. Chairman.

STATEMENT OF HON. MARGUERITE STITT CHURCH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Chairman DAWSON. One of these bills is filed by an active member of our committee, Mr. Lipscomb, but he says he will always yield to the ladies since Mrs. Church is a former member of this committee.

We welcome her once again to testify on the legislative matters she is interested in. Which bill would you like to discuss first?

Mrs. CHURCH. My single statement is made on behalf of both bills, which I thought would be an economy of your time. I would like to first thank Mr. Lipscomb for the courtesy. I am sure he knows I never take advantage of that prerogative unless it is offered me.

Let me say to you it is always good to come back. I greatly appreciate the privilege of appearing before you this morning in regard to H. R. 7338 and H. R. 8236.

H. R. 7338 was introduced to carry out one of the recommendations of the Commission on Organization of the Executive Branch of the Government, generally known as the second Hoover Commission. H. R. 7338 was specifically drawn up to implement recommendation No. 10 in the Commission's Report on Budget and Accounting.

It proposed the creation of a staff office of accounting in the Bureau of the Budget, of which the purpose would be to expedite, guide, and assist agencies and departments in the development of cost-based accounting systems throughout the Government.

The Commission had found that the accounting systems of Government agencies, although adequate to insure legality and honesty in the handling of Government funds, are far from sufficient to secure adequate cost figures which would show the true costs of various functions of the Government.

Without good cost accounting throughout the Government, it is impossible to know how much the various activities and programs of the Government are actually costing us. The Commission therefore urged that the Government accounting system be reoriented so that it would reveal the true costs of Government programs.

To accomplish this objective, much work must needs be done in most of the departments and agencies. It would be the Bureau of the Budget, as an arm of the President in the formulation of the annual budget and for the development of sound management policies throughout the Govrenment, that would properly serve as the appropriate agency to guide and assist agencies in the development of improved accounting methods.

It would not be the task of the Staff Office of Accounting, as set up in H. R. 7338, to impose upon agencies accounting systems, but rather to assist and guide agencies in improving their own accounting methods.

The statement released by the White House on April 29, expressing the approval of the Budget Bureau for this report of the Commission, indicates that some progress is being made already in the Bureau of the Budget to carry out the recommendation.

It is however my belief that for this function to be performed effectively a legislative mandate is necessary. Such a mandate will make it clear to all departments and agencies of the Government that it is the wish of Congress that they cooperate fully with the Bureau of the Budget in developing modern-day, businesslike accounting systems.

It is for this reason that I strongly urge this committee favorably to report H. R. 7338 unless, indeed, a more comprehensive bill might be accepted which would make provision for the successful implementation of the purpose behind H. R. 7338.

H. R. 8236, which might be regarded as a companion bill, seeks to implement Recommendation 2 of the Hoover Commission's Report on Budget and Accounting. It would provide that all executive agencies report annually to the Bureau of the Budget on the conduct of their operations; and that on the basis of such information the Bureau should prepare for the President an annual report on performance of the executive branch of the Government as a whole.

It is true that pursuant to recommendations of the first Commission on Organization of the Executive Branch of the Government, the budgets of most departments and agencies are now being formulated to show the money actually being spent on their specific programs.

In order, however, that the President and Congress may know what results are being obtained by the expenditure of money on such specific programs, information is needed on what these programs have actually accomplished during each fiscal year.

This information should reveal what has been done; what objective was sought to be attained; how far that objective has been realized; and what have been the actual costs.

Without such information at hand, Congress cannot possibly evaluate the desirability of the programs of any specific agencies. Furthermore, it is only by having such material at hand that the Bureau of the Budget as the arm of the President, can evaluate the budget requests of the various agencies for the forthcoming fiscal year.

It is my belief that the passage of H. R. 8236 would, therefore, yield to the Congress the type of information needed for properly evaluating appropriation requests.

Such significant information would also permit the President to improve the administrative management of the Government. Without such information, the Division of Management and Organization of the Bureau of the Budget cannot adequately perform its task of management improvement.

The statement of the Bureau of the Budget released on April 29 again indicates that some steps are already being taken to carry out this recommendation of the Commission; but, here again, it is my sincere belief that a legislative basis for this function is highly desirable.

With such recommendations firmly embodied in actual legislation, all agencies will know that it is the will of the Congress that this proposal be carried out. Such legislation, moreover, would certainly be in conformity with the President's message to Congress of May 10, 1956, in which he urges the enactment of legislation to carry out the Commission's recommendations in the budget and accounting field.

Mr. Chairman, I realize that this committee is also considering a much more comprehensive bill, H. R. 9402, designed to carry out practically all of the recommendations of the Report on Budget and Accounting of the Commission on Organization of the Executive Branch of the Government. If this committee should decide to report favorably on H. R. 9402, it would not be necessary to take action on H. R. 7338 and H. R. 8236.

However, if for any reason whatsoever H. R. 9402 should not receive favorable action, I would strongly urge that prompt and favorable consideration be given to H. R. 7338 and H. R. 8236.

I would like to add, Mr. Chairman, my own appreciation of the effort that Mr. Lipscomb has made to bring in a comprehensive bill and assure him I will do everything possible to support it.

Chairman DAWSON. This committee has been very fortunate to have Mr. Lipscomb, a public accountant, as a member of this committee. We are releasing a report of his investigation and work with the General Accounting Office, which I think will be one of the most informative studies made by this committee in a long time.

Mrs. CHURCH. We thank you also for having that report made, Mr. Chairman.

Chairman DAWSON. Thank you.

Mr. Jonas?

Mr. JONAS. Thank you very much for that fine statement, Mrs. Church, but I would like to ask this technical question. As I look at both bills, they tend to amend the same section of the Budget and Accounting Procedures Act by adding a new section but they are labeled 120 (a). Is that a mixup in numbering? They couldn't both be 120 (b).

Mrs. CHURCH. It would not be a mixup in numbering if each bill were considered separately, Mr. Jonas. Since I did not know which bill would be called up first, I drew up each originally as though the other were not in being.

Mr. JONAS. As though it would stand alone?

Mrs. CHURCH. Yes. It would mean if these bills were accepted, they would have to be written in and the sections would have to be renumbered, according to which one came first.

I took 7338 as the logical number. The committee might decide the other might be more logical to put first. Thank you for calling attention to that fact.

Chairman DAWSON. Thank you very, very much.

Mrs. CHURCH. Thank you, Mr. Chairman.

Chairman DAWSON. Congressman Lipscomb?

STATEMENT OF HON. GLENARD P. LIPSCOMB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. LIPSCOMB. Mr. Chairman, members of the committee, I am certainly pleased to appear here today in support of H. R. 9402, the bill which I introduced on February 20, 1956, to improve budget and accounting procedures in the Federal Government through implementation of the majority of the budget and accounting recommendations of the second Hoover Commission.

I appreciate particularly the interest of the chairman and the members of the reorganization subcommittee evidenced by scheduling these hearings for the consideration of such legislation.

Mr. Chairman, I would like to add that I appreciate the consideration the committee has shown in other studies in regard to general budget and accounting matters.

BACKGROUND HISTORY

Because significant events have transpired in connection with the subject matter of this bill since its introduction, I believe that it would be well to review briefly the background of the bill and bring us up to date on the present status of this proposal.

The report of the second Commission on Organization of the Executive Branch of the Government (Hoover Commission) with respect to budget and accounting was transmitted to the Congress by Hon. Herbert Hoover, Chairman of the Commission, on June 20, 1955.

On February 14, 1956, Senator Frederick G. Payne of Maine introduced in the Senate, on behalf of himself and 21 of his colleagues, S. 3199.

On February 20, 1956, I introduced in the House this bill H. R. 9402, an exact companion measure to Senator Payne's bill. It was my purpose in introducing this bill to bring before the House for serious consideration and discussion this proposal which had already been drafted by Senator Payne and which seemed to me to have great merit and significance.

On March 21, 26, and 27, 1956, the Reorganization Subcommittee of the Senate Committee on Government Operations, under the chairmanship of Hon. John F. Kennedy of Massachusetts, held hearings on S. 3199, the companion Senate bill which had been introduced by

Senator Payne. At these hearings representatives of the Bureau of the Budget, the General Accounting Office, the Department of the Treasury, and the Department of Defense testified extensively with respect to the views of the executive branch of the Government concerning this proposed legislation.

In addition, Mr. J. Harold Stewart, former Chairman of the Hoover Commission's Task Force on Budget and Accounting, who is scheduled to testify before this subcommittee also, presented his views to the Senate committee.

It is my understanding that at the conclusion of those Senate hearings the Senate subcommittee deferred final hearings and action upon the Payne bill until such time as a redrafted version could be worked out conforming more closely with the views of the members of the Senate subcommittee after having received and considered the testimony of the preliminary hearings. I have been informed that Senate hearings on a redrafted version of the Payne bill have at least tentatively been scheduled to reconvene on Monday, June 4, 1956.

On April 29, 1956, the White House released an exchange of correspondence between the President and Percival F. Brundage, Director of the Bureau of the Budget, revealing that steps had already been taken by the Bureau of the Budget and some of the departments of the executive branch of the Government to put into effect administratively some of the recommendations of the Hoover Commission with respect to budget and accounting.

(A copy of this exchange of correspondence is attached for the information of the subcommittee and for inclusion in the record with the permission of the subcommittee.)

THE WHITE HOUSE, *April 29, 1956.*

The White House released today an exchange of correspondence between the President and Percival F. Brundage, Director of the Bureau of the Budget, with respect to the Hoover Commission recommendations on budget and accounting. Steps have already been taken to put part of these recommendations into effect.

The first recommendation of the Commission report on budget and accounting called for an expansion of the Bureau of the Budget in order to make more effective the discharge of its managerial and budgeting functions.

Recommendation No. 10 proposed that there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting with power and duties as follows:

"(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

"(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

"(*c*) To set reasonable but definite time schedules for performance and to watch progress.

"(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

"(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies."

These recommendations have been accepted 100 percent. Assistant Director Percy Rappaport has been placed in charge of a new Staff Office of Accounting and, in collaboration with representatives of the General Accounting Office and the Treasury Department, will strengthen the joint accounting program in order to bring about more rapidly desirable improvements in budget and accounting and management generally. Many of the other proposals of the budget and accounting report are also being adopted at once, and others are being discussed with the Congress and the other departments of the executive branch.

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The letters and accompanying memorandum are attached hereto.

The President's letter to Mr. Brundage is as follows:

DEAR MR. BRUNDAGE: I have reviewed your analysis of the Hoover Commission's Report on Budget and Accounting, transmitted with your letter of April 23, 1956. Your plans for carrying out the Commission's recommendations represent a constructive approach toward realizing the Commission's objective of strengthening the budget and accounting processes of the Federal Government.

The Hoover Commission's report on Federal budgeting and accounting is a document of great public significance. I join the citizens of the Nation in thanking the Commission for this as well as for the other important studies which it has made. Moreover, because the formulation and administration of the Federal budget are vital responsibilities of the Chief Executive, I am especially and personally appreciative of the contribution which Mr. Hoover and his distinguished associates have made in proposing improvements in budget and accounting systems which will enable more effective management and control of the programs administered by the executive branch.

I consider it desirable and necessary that the executive departments and agencies intensify their efforts, along the lines indicated in your analysis, to establish budget and accounting systems that will provide better financial information and enable both the improvement of our budget presentations and the strengthening of our budget controls. In addition, I approve of your plans to have the Bureau of the Budget give greater emphasis in its work to the evaluation and advancement of administration in the executive agencies, as a means of more rapidly bringing about improvement in organization and management, including more effective budgeting and accounting practices, throughout the executive branch.

I commend to the Congress its consideration of those Hoover Commission budget and accounting proposals which are particularly pertinent to the role and functions of the Congress, with the assurance that the executive branch will cooperate fully in actions to strengthen the appropriation and financial control processes of the legislative branch.

Sincerely,

DWIGHT D. EISENHOWER.

Mr. Brundage's letter to the President is as follows:

DEAR MR. PRESIDENT: The Bureau of the Budget has substantially completed its analysis of the recommendations in the Budget and Accounting Report of the Commission on Organization of the Executive Branch of the Government submitted to the Congress on June 20, 1955. In making that analysis we have had helpful comments from the departments and agencies of the executive branch, your Advisory Committee on Government Organization, and your personal assistant for the Hoover Commission studies, Mr. Meyer Kestnbaum. Transmitted with this letter is a report setting forth the status of our review and outlining the actions that are being taken to carry out many of the Commission's recommendations.

The Commission's Budget and Accounting Report highlights significant problems of financial administration in the Government and sets important and desirable objectives. The Commission is to be commended for its excellent job.

Many of the recommendations endorse constructive efforts which were started following the reports of the first Hoover Commission. The report also supports to a marked degree the current efforts of the joint accounting program conducted by the General Accounting Office, the Treasury Department, and the Bureau of the Budget, with the participation of the executive departments and agencies. While approving the objectives of our work, the Commission suggested additional emphasis and greater concentration of effort in order to bring about more rapidly desirable improvements in budgeting, accounting, and management generally.

In considering the adoption of the Commission's proposals, it must be recognized that they involve the functions and interests of the Congress to a considerable degree because of the constitutional role of the Congress in the creation and financing of Government programs. Action in the executive branch to carry out some of the Commission's proposals will require the closest coordination with the legislative branch to insure full satisfaction of all of the interests involved.

With the support which the Commission has given, greater progress can be made toward the attainment of many generally accepted objectives. On the report as a whole, we can assure you that the Bureau's work on implementation will proceed as rapidly as its resources permit.

Sincerely yours,

(Signed) PERCIVAL F. BRUNDAGE, *Director.*

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

Analysis of the Budget and Accounting Report of the Commission on Organization of the Executive Branch of the Government

GENERAL

The budget and accounting report of the Commission on Organization of the Executive Branch of the Government offers constructive proposals for improving the financial processes of the Government. Consideration of the recommendations in that report by the executive branch has provided an opportunity for the reexamination of many present practices and objectives. It also has led to the development of actions for accelerating efforts to provide budget and accounting systems that will make a more effective contribution to the management of the Federal Government.

The budget and accounting report includes 25 recommendations pertaining to budgeting, accounting, and auditing practices, financial and performance reports, financial organization, and related matters. Those recommendations, in general, urge additional emphasis and greater concentration of effort on actions to provide accounting systems throughout the Government that will produce better financial information and on the improvements in budget presentations and controls which better accounting information and systems will make possible. The report also proposes expansion of the Bureau of the Budget in order to enable the more effective discharge of the Bureau's managerial and budgeting functions, with recognition that the strengthening of the Bureau of the Budget has a direct bearing on executive branch leadership toward fulfillment of the Commission's recommendations.

In setting forth the current status of this analysis by the Bureau of the Budget of the several categories of recommendations included in the Commission's report and outlining the actions that are being taken to carry out many of them, this statement makes clear that most of the recommendations or their objectives have the endorsement of the executive branch. Full implementation of many of the basic recommendations will not be accomplished overnight because, as the Commission recognized, the changes needed in agency accounting systems are essentially of a long-range nature. Furthermore, action on a number of the recommendations is primarily dependent upon acceptance by the Congress.

BUDGETING

With respect to Federal budgetary practices, the Commission's principal recommendations call for (*a*) continued use of performance budgeting, (*b*) formulation and administration of agency budgets on a cost basis, (*c*) appropriations based on accrued expenditures, and (*d*) authorization for limited periods of continuing Government programs not susceptible to the usual budget controls.

Performance budget.—The first Hoover Commission recommended the adoption of a performance budget, defining it as a budget based upon functions, activities, and projects and contrasting it with former budgets which had focused attention mainly upon such things as personal services, supplies, and equipment. The second Hoover Commission and its task force both noted that considerable progress has been made toward achieving a performance budget and recommended further steps to establish such classifications as are necessary to present the budget on a performance basis.

There has been continuous effort for several years to refine budget and accounting classifications in the interest of synchronizing organization structures, budgets, and accounting systems and to encourage the use of performance budgets and reports in agency operations. We are in full agreement with these suggestions of the Commission and propose to intensify our efforts to carry them out.

Agency budgets based on cost.—In recommending a cost basis for agency budgets, the Commission wanted these budgets to show the actual and estimated costs of goods and services consumed each year in carrying out budgeted programs rather than be limited to the actual and estimated obligations that are now shown, which take into account but fail to disclose the use of carryovers of inventory and working capital resulting from oblgiations of prior years. Thus, agency budgets would more readily enable all concerned to relate budget figures for a given year to the cost of work or services performed during that year.

Cost-type budgeting is now used by Government corporations. A few other agencies also present cost-type budgets to the Congress, in instances where the

Appropriations Committees have indicated that such presentations are acceptable to them. Those include the Atomic Energy Commission and the Bureau of the Mint whose accounting systems now produce data on the costs of goods and services consumed. A number of other agencies are able to formulate cost-type budgets and have submitted their budgets on that basis for review by the Bureau of the Budget.

We agree with the Commission that the installation of accounting systems which will produce cost information should be expedited; and, as pointed out later in this report, actions are being initiated to strengthen executive branch leadership for improvement of accounting, including steps to stimulate and assist agencies in establishing such accounting systems. Agency accounting systems are not, of course, overhauled overnight, but as soon as accounting systems are producing the necessary data on a fully reliable basis, proposals for incorporating cost data in the budget document can and will be made to the Appropriations Committees.

Appropriations based on accrued expenditures.—The Hoover Commission's recommendation that accrued expenditures be used as a basis for appropriations calls for significant changes in present executive branch and congressional practices. Appropriations are now made in terms of obligations, with amounts appropriated serving as a limit on goods and services to be ordered; whereas the Commission favored appropriation of amounts covering goods and services to be received each year, with supplementary congressional authorization and limitation for long lead-time programs as required.

Those agencies able to formulate their budgets on a cost basis now have accounting systems which furnish, at successive stages of their operations, data showing the costs of goods and services ordered, received, and consumed. Such agencies can operate on a basis of accrued expenditure appropriations, and other agencies will be able to do so as soon as accounting systems which can produce information for cost budgeting are installed.

We believe that a change to appropriations on an accrued expenditure basis would be beneficial—in terms of improving management and strengthening budget controls of both the executive branch and the Congress. There is, however, considerable difference of opinion within the Congress and the executive branch both as to the advantages and disadvantages of accrued expenditure appropriations and as to the methods that would be needed for the financing and control of obligations in advance of appropriations, primarily for long-lead-time programs. For this reason we urge that the Congress and the executive branch adopt this as an objective, recognizing that it will necessarily need to be implemented on an evolutionary basis over a considerable period of time.

The Hoover Commission recognized the long-range character of its recommendation when it pointed out that "adoption of this proposal will require administrative changes in the Government's budgeting and accounting procedures, particularly in the Department of Defense, and will require education of those concerned with the budgetary procedures and the working out of the precise mechanics." These procedures and mechanics are among the goals of the Bureau of the Budget and of the joint accounting program. The number of agencies with accounting systems which will furnish the necessary data is increasing each year as progress is made under the joint accounting program, and acceleration of that program should speed the installation of such systems in other agencies. With a basic authorization to proceed with accrued expenditure appropriations, the executive branch and the Congress will be able to proceed more rapidly toward the ultimate objective.

Limited authorization for continuing programs.—The Hoover Commission suggested that legislation committing the Government to continuing programs not susceptible to the usual budgetary controls ordinarily be enacted for a limited term in order to require periodic congressional reviews of their usefulness. The need for periodic review of such programs by the legislative and executive branches is recognized, and the Bureau will, as the Commission suggested, continue to keep such programs under continuing review, proposing legislative amendments whenever necessary to assure their conformity with budget policies.

ACCOUNTING AND AUDITING PRACTICES

As already indicated, fulfillment of the Hoover Commission's recommendations for strengthening Federal budgetary practices is largely dependent upon an intensification of efforts to install improved accounting systems throughout the Government. Significant among the Commission's recommendations for improving accounting and auditing practices is a proposal for acceleration of efforts

to install adequate monetary property accounting records and maintenance of Government accounts on the accrual basis. The Commission also made proposals dealing with simplification of allotments, use of a single account in each agency for liquidation of obligations and other practices in the settlement of claims, relief of accountable officers in certain instances, and the need for examination of revolving fund and internal audit practices.

Accrual accounting.—The Commission's recommendations that Government accounting systems be kept on the accrual basis and that adequate monetary property accounts be included as an integral part of such systems focused attention on the need for a method of accounting which can best assure the development of accurate information on the cost of work or services performed. The accrual method of accounting will disclose the value of resources actually applied to operations performed during a specified period (which is not true of obligation accounts that disclose only the value of goods ordered) and at the same time will provide needed information on the value of resources available for future operations.

We are in agreement with the Commission's proposals. The installation of accrual accounting systems has been a major objective of the joint accounting program, which has made considerable progress in advancing the installation and use of such systems. A sizeable job still remains, but the development of accrual accounting throughout the Government will be given special and increased emphasis by the Bureau of the Budget and the joint accounting program. Such systems are recognized as essential to the efforts that will be made to carry out the Hoover Commission's proposal for developing budgets on a cost basis.

Allotment structure.—The goal recommended by the Commission of financing each operating unit from a single allotment for each appropriation involved in its operations is a desirable one. The simplification of agency allotment structure through the establishment of allotments at highest practicable organizational levels consistent with management responsibility has been a matter of continuing concern, and considerable progress has been made. Further attention in a number of agencies is still needed and will be provided.

Payment of obligations and claims.—The Commission's proposal that agencies consolidate their appropriation accounts at the end of a fiscal year in order to reduce the number of accounts from which payments to close out unliquidated obligations are made and its recommendation that the agencies rather than the General Accounting Office settle claims against lapsed appropriations would bring about desirable simplifications. We look with favor upon the Commission's objectives. After several years of work, legislation to accomplish these objectives has been developed by staff of the joint accounting program and is now being considered by the Congress.

Liability of accountable officers.—The Commission's recommendation that the Comptroller General be authorized to relieve accountable officers of financial liability except where losses result from their own negligance or from fraud was aimed at eliminating redtape resulting from overcautious practices designed to assure compliance with many prohibitory statutes. Legislation on this subject, somewhat different from the exact proposal of the Commission, was enacted after the Commission's studies had been completed. This legislation, developed by the joint accounting program with our support, is expected, for practical purposes, to attain the results sought by the Commission and at the same time assure ample protection to both the Government and its accountable officers.

Review of revolving funds and internal auditing.—The review of agency revolving funds, proposed by the Commission as a means of assuring that they are created and continued only where they will contribute to efficient management, has been and will continue to be carried on as a part of the budget process. The Commission's recommendation that a study be made to determine the adequacy of internal auditing in Government agencies will be considered for initiation by the joint accounting program. That program has actively promoted and assisted agencies in the development of internal audit systems, and the General Accounting Office regularly examines agency internal auditing practices as a part of its comprehensive audits. The proposed study may provide a helpful evaluation of the results being achieved by such systems.

CENTRAL FINANCIAL AND PERFORMANCE REPORTING

The Hoover Commission made several recommendations aimed at developing and providing more comprehensive reports on both the financial results and the performance of Government programs. Its recommendations included proposals for increased and continuing emphasis upon the improvement of Treasury's

central fiscal reports, for a special study to eliminate duplicate accounting within the Treasury Department and between that Department and other agencies, and also for the development by the Bureau of the Budget of governmentwide reports on executive branch performance and on the financial results of Government operations.

The improvement of central financial reporting is a major continuing activity of the joint accounting program, and work is currently under way on installation of a system designed to eliminate duplicate accounts within the Treasury Department. A working group of the joint accounting program has also developed a new central accounting system, installed last year by the Treasury Department, which will enable action to eliminate certain detailed accounts in the Treasury Department as soon as agency accounts demonstrate that they can supply data needed for essential central financial reports. Intensified efforts to improve agency accounting systems will result in the more rapid elimination of duplicate accounts in the Treasury Department, thus achieving the objective sought by this recommendation of the Commission.

The proposal that the Bureau of the Budget develop central performance reports raises a number of questions on the needs to be served and the specific kinds of reports required to meet the purposes underlying the recommendation. Our prior experience with performance reports suggests several alternative approaches to the Commission's apparent objectves, which may or may not require additions to the reports which are furnished to the President informally throughout the year and more formally when the annual budget is being formulated. Any additions to such reports should be accomplished with a minimum of new demands on the agencies.

We shall continue our review of these matters, including consultation with Treasury officials as appropriate, and will make specific proposals for consideration at a later date. The development of central reports on the financial results of Government operations would constitute a new function for the Bureau, and one that would parallel the central fiscal reporting functions of the Treasury Department.

FINANCIAL ORGANIZATION

The Hoover Commission's Budget and Accounting Report proposed the establishment of comptroller organizations in the principal agencies and recommended that the Bureau of the Budget establish an Office of Accounting that would include among its duties the rendering of assistance to agency comptrollers.

The proposal for agency comptrollers, if interpreted to mean the imposition of a fixed pattern of organization upon all agencies, would conflict with the guiding principles of organization which were laid down by the first Hoover Commission and which have since won wide acceptance in both the executive branch and the Congress. In order that agency heads may be held accountable for agency operations, they must have authority to control the internal organization of their agencies. We believe that there should be effective coordination of agency budget and accounting functions but that the principle of agency head accountability should be maintained and the imposition of a fixed pattern of organization on all agencies should be avoided. We do not believe that the Commission intended that a comptrollership organization such as it described should be made mandatory for all agencies, either by a statutory or Presidential mandate, but rather that the Commission was directing its recommendation to the responsible heads of the agencies for their consideration.

The recommendations regarding the accounting organization and functions of the Bureau of the Budget were designed to strengthen the Bureau's role in the improvement of Government accounting. Until recently the Bureau of the Budget had a small accounting group in the Office of Management and Organization, the staff of which acted as the Bureau's representatives in the joint accounting program. We agree that the executive branch should assume greater leadership in the accounting field and believe this would be an important factor in improving coordination of budgeting and accounting in the Government. We also concur that the Bureau's capacity to assist agencies in improving their facilities for financial management should be further developed. As a first step toward these objectives, an Assistant Director of the Bureau of the Budget with many years of experience in public accounting practice has been given the job of developing and supervising an expanded accounting program for the Bureau and of providing leadership on behalf of the Bureau in increasing the impetus to accounting reforms throughout the Government.

STRENGTHENING THE MANAGERIAL AND BUDGETING FUNCTIONS OF THE BUREAU OF THE BUDGET

The first recommendation in the Hoover Commission's Budget and Accounting Report proposed that the managerial and budgeting functions of the Bureau of the Budget be strengthened and made more effective. In this connection, it suggested that, if necessary, increased resources should be provided for the Bureau and that some of the Bureau's staff should be physically located throughout the year in the offices of the major agencies.

The Commission's proposal for expansion and strengthening of the Bureau of the Budget is one of major importance to other objectives of the Commission. It has a direct bearing on how fast and how well the executive branch carries out many of the recommendations cited above and, in addition, governs the ability of the Bureau to take appropriate action on recommendations contained in other reports of the Commission—notably those dealing with paperwork management and general services matters. The resources currently available in the Bureau do not permit a satisfactory level of accomplishment in its presently assigned functions, much less permitting the expansion called for by the Commission.

The suggestion that Bureau personnel be located in the major agencies must be evaluated in terms of its impact upon Bureau-agency relationships. For best results, the Bureau has found that relationships with the agencies must be based on cooperation and mutual understanding of the basic factors underlying the submission and presentation of agency budgets. Because most agencies believe that the placement of Bureau staff in the agencies would result in a diffusion of agency budget and management responsibilities, adoption of the proposal probably would not contribute to better or more effective relationships between the Bureau and the agencies. Limited attempts which the Bureau has made in the past toward the type of arrangement proposed have met with little success.

We believe that the objective sought by the Commission will be achieved if the Bureau's staff is enlarged and if measures are invoked to increase substantially the proportion of staff time spent in on-site reviews of agency operations. There has been a steady reduction in the staff of the Bureau for the past 7 or 8 years in the face of a very great increase in work. As one of the results of those conflicting trends the Bureau's staff members have been forced to do more and more of their work behind their desks, with many undesirable results. It is our firm intention to take all possible measures to bring Bureau staff into closer contact with agency operations and employees and thus to correct the undesirable situation that has developed.

The steady reduction in the size of the Bureau's staff has been felt in all of the Bureau's activities, but its most adverse effects have been upon the management functions assigned to the Bureau by the Budget and Accounting Act of 1921, the Budget and Accounting Procedures Act of 1950, and several Executive orders. The Commission suggested that the Bureau's job of reviewing and promoting improved management and organization throughout the executive agencies should be strengthened. We are in agreement with that suggestion and fully recognize how important it is that the Bureau of the Budget provide, on behalf of the President, continuing attention to the evaluation, development, and promotion of improved organization, coordination, and management in the executive branch.

Additional staff resources for the Bureau will be needed to enable the Bureau to put additional emphasis on its management functions, including the improvement of executive branch budgeting and accounting methods and procedures. Favorable action by the Congress on a proposal by the President for enlargement of the Bureau's staff will enable the Bureau to provide greater help to the President by extending his leadership in improvement of Federal administration and in obtaining better and more economical performance of Government programs.

Mr. LIPSCOMB. On May 10, 1956, the President, in a special message to the Congress, urged that the Congress seek the early enactment of appropriate legislative provisions to support the major objectives of the Hoover Commission's recommendations on budget and accounting.

In this message the President reviewed briefly the administrative action already taken, and said:

The actions being taken by the executive branch to put many of the Commission's proposals into effect will require close coordination with the legislative branch and merit the support which the Congress should and can provide. I urge that the Congress seek the early enactment of appropriate legislative provisions to support the main objectives of the Commission's recommendations.

(A copy of the President's message is attached for inclusion in the record with the permission of the subcommittee.)

(The document referred to is as follows:)

[H. Doc. No. 401, 84th Cong., 2d sess.]

FEDERAL BUDGETING AND ACCOUNTING PRACTICES BY THE COMMISSION ON ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT

Message from the President of the United States transmitting recommendations relative to a report on Federal budgeting and accounting practices by the Commission on Organization of the Executive Branch of the Government

To the Congress of the United States:

The Commission on Organization of the Executive Branch of the Government, headed by former President Herbert Hoover, has set important and desirable objectives for the improvement of Federal administration and for providing more effective methods in the financing and control of Government services. Cooperative action on the part of the legislative and executive branches is required in order to bring about more rapidly the fulfillment of those objectives.

The Commission's report on Federal budgeting and accounting practices is an important contribution toward the attainment of more effective and economical governmental services. It includes significant recommendations showing how the Federal Government can bring about improvements in budgeting, accounting, and management practices generally. Because these recommendations pertain to vital responsibilities of the Chief Executive, I am especially and pesronally appreciative of the contribution which Mr. Hoover and his distinguished associates have made.

These recommendations of the Commission have been studied extensively by the executive branch with a view toward identifying all possible actions that can be taken to strengthen the administration of the executive agencies. I have already approved plans developed by the Director of the Bureau of the Budget to intensify efforts of the executive branch toward that objective. These plans include actions to accelerate the establishment and use of modern accounting methods and improved budget presentations and controls. I consider it desirable and necessary that the executive departments and agencies actively and fully participate in carrying out these plans.

The actions being taken by the executive branch to put many of the Commission's proposals into effect will require close coordination with the legislative branch and merit the support which the Congress should and can provide. I urge that the Congress seek the early enactment of appropriate legislative provisions to support the major objectives of the Commission's recommendations.

The initial recommendation of the Commission's report on budget and accounting calls for the strengthening of the management review and budgeting functions of the Bureau of the Budget. This is of signal importance to the attainment of the Commission's objectives in this field. It has a direct bearing on how fast and how well the executive branch carries out the plans which I have approved. Because the resources of the Bureau of the Budget must be increased if it is to provide, on my behalf, strengthened leadership in the improvement of executive branch budgeting, accounting, and other management practices, I am proposing to the Congress a supplemental appropriation to permit an expansion of the Bureau's staff for this purpose.

Today's Government demands the use of the best and most economical methods that can be devised. To that end, we should take full advantage of the constructive proposals put forth by Mr. Hoover and his able associates.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, *May 10, 1956.*

SUBSTANTIVE ASPECTS OF THE BILL

Mr. LIPSCOMB. Since the passage of the Budget and Accounting Act of 1921, much has been said and written about the Federal budget process. In the 35 years since the adoption of that act a great deal of progress has been made in improving Federal fiscal procedures.

If the size and nature of the Federal Government had remained at the 1921 level, today's budget processes would probably be adequate. But today the size and complexity of the operations of the Government have grown manyfold since 1921, and the annual budget of some $60 billion in an amount undreamed of in 1921.

That the present fiscal system has serious shortcomings is rather unanimously agreed by all authorities in the field. As to agreement on particular shortcomings there is not so much unanimity, and with regard to possible corrective measures there is reasonable agreement on certain approaches and some disagreement on others.

The decade since the end of World War II has seen a growing demand for modernization of the budget process, and some progress has been made such as the Government Corporation Control Act of 1945, which placed the operations and accounting of Government corporations on a business type system; the 1949 amendment to title IV of the National Security Act of 1947, which provided for performance budgeting in the Department of Defense; and the Budget and Accounting Procedures Act of 1950, which carried out some of the recommendations of the first Hoover Commission, and took some major steps toward revitalizing the budget process.

Despite the fact that the record shows considerable progress, we still have a long way to go. There have been many proposals made which would purport to improve our fiscal system, with each receiving varying degrees of support from fiscal experts, both in and out of the Government.

Naturally some have more merit than others. On several of the major proposals there is substantial agreement on the general plan, but serious disagreement on the manner of implementation. A great many of these proposals, most of which appear to have merit in the long run, are in the field of procedural changes such as the proposals for an omnibus appropriation bill coupled with the item veto, and changes in the organizational structure of Congress to provide for more coordinated consideration of appropriation and revenue measures.

In addition, there are many other recommendations worthy of the most careful consideration as long-range methods of improving the fiscal performance of our Government as a whole.

There is probably no panacea for all of our problems in the area of fiscal performance and responsibility, but there certainly must be a logical starting point, and only by starting at the proper place can we hope to achieve the goals toward which all of us believe we should work.

It would seem that the starting point is the development of sound, accurate, meaningful, useful fiscal data which could be generated from an adequate and efficient budget and accounting system. Until we put the fiscal operations of the Government on such a system, all the desirable procedural changes in the world will have only minimum effectiveness.

It would seem that the budget and accounting recommendations of the second Hoover Commission in its 1955 report to the Congress on budget and accounting provide one of the best comprehensive feasible approaches to the problem. The omnibus bill drafted and introduced by Senator Payne in the Senate, and which I introduced in the House, was intended to be a single omnibus bill including all of the Hoover Commission's recommendations on budget and accounting that appeared to be feasible to adopt at this time.

Those recommendations of the Commission which would be adopted by the bill are set forth in the sectional aalysis of the bill which is attached for the information of the subcommittee and for inclusion in the record with the permission of the subcommittee.

(The document referred to is as follows:)

SECTIONAL ANALYSIS OF LIPSCOMB BILL, H. R. 9402, TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS

SECTION 1 (A)

This section was designed to directly implement recommendation No. 22 of the Hoover Commission Budget and Accounting Report. The Commission did not specify the period comprehensive financial reports should cover, but it seemed reasonable that they should be on a fiscal-year basis. However, it also seemed desirable to give the Director of the Bureau of the Budget some discretion, since experience might well prove that such reports would be of more value if based on shorter periods.

Hoover Commission recommendation No. 22 is as follows:

Recommendation No. 22

"That the Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities."

SECTION 1 (B)

This section was intended to carry out Hoover Commission recommendations Nos. 2, 3, 4, and 6. Basically, it would require the use of cost-based budgets by all the agencies, for all management purposes. With regard to the requirement of quarterly reports to agency heads by subordinate units, the Hoover Commission made no direct recommendation. However, in line with the objective of improving the fiscal management function, such reports seemed desirable, and also it was thought that they would form the basis of the annual report the agency head is required to submit to the Bureau.

Hoover Commission recommendations Nos. 2, 3, 4, and 6 are as follows:

Recommendation No. 2

"That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole."

Recommendation No. 3

"That, for management purposes, cost-based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance."

Recommendation No. 4

"That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishments, and by a review of performance by organizational units where these do not coincide with performance budget classifications."

Recommendation No. 6

"That executive agency budgets be formulated and administered on a cost basis."

SECTION 1 (C)

This section was intended to put into effect recommendation No. 1. This, in particular, is one of the provisions that could be handled administratively. It would place employees of the Bureau in the executive agencies to help carry out the Bureau's managerial functions by maintaining a continuous review of budget preparation and administration. It was believed that this measure would be a major factor in achieving sound budget and accounting methods and would aid in developing some degree of uniformity in this field. The provision limiting the Bureau to not more than two persons for each principal subdivision of an agency was designed to place some initial limit on the number of personnel so employed. It may be found later that a different limiting number would be better. It is hoped that this problem will be carefully explored by the committee in studying this bill.

Hoover Commission recommendation No. 1 is as follows:

Recommendation No. 1

"(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

"(*b*) That in order to do this, among other things, it should place in important agencies one or more well-qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

"(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose."

SECTION 2 (A)

This provision simply states legislatively recommendation No. 5 of the Hoover Commission, which is as follows:

Recommendation No. 5

"That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems."

SECTION 2 (B)

This section was designed to carry out recommendations Nos. 14 and 16. This provision is a natural corollary of cost-based budgeting. In practice it would mean that it would be possible for management to determine at any given time its fiscal status. Monetary property accounting is essential to determine with any degree of accuracy the fiscal status of an agency, either for management purposes or for the Congress.

Hoover Commission recommendations Nos. 14 and 16 are as follows:

Recommendation No. 14

"That the Government accounts be kept on the accrual basis to show currently, completely, and clearly, all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting."

Recommendation No. 16

"That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of the accounting systems."

SECTION 2 (C)

This section would put recommendations Nos. 10, 11, and 12 of the Hoover Commission into effect. First it would establish a Staff Office of Accounting in the Bureau of the Budget headed by an Assistant Director and lists his duties. It is realized that there are valid objections to legislating an administration organization. Furthermore, the Bureau of the Budget has already announced administrative action to implement to some degree these recommendations. On the other hand there is a clearly demonstrated need for improvement in accounting and it would seem, in view of congressional control of the purse, entirely proper for Congress to take this type of action. As the systems contemplated in this bill were tested with experience, there would be nothing to prevent the Director of the Bureau from recommending changes. Recommendation No. 12 is covered in the duties of the Assistant Director.

The second part of the section would create the position of Comptroller in each agency and generally outlines his duties. Actually almost every agency has a position that in some respects corresponds to a Comptroller, but there is wide variation in the powers and duties of these positions in the various agencies. In the interest of promoting improved fiscal performance it was believed that much might be achieved through the clear delineation of the major functions of an agency comptroller.

Hoover Commission recommendations Nos. 10, 11, and 12 are as follows:

Recommendation No. 10

"That there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

"(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

"(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

"(*c*) To set reasonable but definite time schedules for performance and to watch progress.

"(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

"(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies."

Recommendation No. 11

"That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

"(a) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

"(b) To direct the recruitment, training, and development of qualified accounting personnel.

"(c) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

"(d) To interpret and advise upon significant aspects of the financial reports.

"(e) To direct the preparation and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies."

Recommendation No. 12

"That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget."

SECTION 3

This section relates to recommendation No. 13 of the Hoover Commission. Since this provision would take some time to implement and depends on the installation of adequate accounting systems as well as determining just what are operating units in the various agencies, the bill states this objective as congressional policy.

Hoover Commission recommendation No. 13 reads as follows:

Recommendation No. 13

"That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operation."

SECTION 4

This section is a direct statement of recommendation No. 17 of the Hoover Commission. The maintenance of multiple accounts is one of the greatest deterrents to sound financial accounting.

Hoover Commission recommendation No. 17 reads as follows:

Recommendation No. 17

"That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations."

SECTION 5

This section would carry out recommendations Nos. 20 and 25 of the Hoover Commission. As a matter of fact the Bureau of the Budget and the General Accounting Office have already done considerable work along these lines in the past and probably would continue to do so. However, it seemed desirable to include these recommendations in the bill, since there was nothing to be lost thereby, and a congressionally authorized study was believed to have more effect than an unofficial one.

Hoover Commission recommendations Nos. 20 and 25 are as follows:

Recommendation No. 20

"That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate (*a*) duplicate accounts within the Treasury Department, and (*b*) duplicate accounting as between the Treasury Department and the various departments and agencies."

Recommendation No. 25

"That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it."

Mr. LIPSCOMB. I strongly urge the enactment of H. R. 9402 or a comparable version of a revised bill because I believe it will make possible more effective congressional control over Government expenditures. It does this by providing for cost-based accounting and cost-based budgeting throughout the Government.

Section 1 (b) of this bill provides that cost-based budgets shall be used by all departments and agencies. It goes on to provide that all departments and agencies shall submit performance reports to the Bureau of the Budget. These reports would be important documents in making significant the cost-based performance budgets developed by the agencies.

Section 2 (b) provides that the accounts of each agency shall be kept on an accrual basis to show the actual cost of operation. This would facilitate the preparation of cost-based budgets.

The General Accounting Office, in its comments on H. R. 9402, points out that the primary advantage of budgeting on a cost basis to both management officials in the agencies and the Congress is that total resources to be used (on hand, on order, and to be procured) are reviewed, rather than limiting the budget review processes to primary consideration of the programs and projects for which new appropriations are being requested.

In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures, and costs in those many operations primarily concerned with personal services. On the other hand, dollarwise, the greatest significance should be attached to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets representing the major portion of Government expenditures. Major procurement, construction, and research and development ordinarily fall in this latter category of major expenditures, and it is in these areas that budgeting on a cost basis would produce

major savings, although the adoption of cost-based budgeting would improve financial management in many other areas also.

Section 2 (c) provides for the creation in the Bureau of the Budget of a Staff Office of Accounting. This agency, with the cooperation of the Department of the Treasury and the General Acctunting Office, would assist the operating departments and agencies in the development of adequate accounting systems to meet the objectives of this bill. The subcommittee will, no doubt, wish to consider the adequacy of comparable administrative measures already announced to have been taken by the Bureau of the Budget in this respect.

Section 2 (c) would also create the position of Comptroller in each agency and generally outlines his duties. Actually almost every agency has a position that in some respects corresponds to a comptroller, but there is a wide variation in the powers and duties of these positions in the various agencies. In the interest of promoting improved fiscal performance it was believed that much might be achieved through the clear delineation of the major functions of an agency comptroller.

The Congress by enactment of the Budget and Accounting Procedures Act of 1950 took a significant step forward in providing for the use of program or performance budgets by the executive agencies of the Government. The objective of this law was to have the Government departments show how they intended to spend their money on the basis of the major programs that the agencies carry out. To make such a budget effective and meaningful, Government accounts must be kept on a cost basis and not merely on an obligation basis. The agencies must be able to tell what a given program has cost in a given fiscal year, and not merely how much appropriated funds have been spent in a given fiscal year. Only with adequate accrual cost-based accounts can a budget be developed that will show how much a given program is likely to cost in a given fiscal year. Thus the enactment of this bill, in my opinion, is a necessary step to make thoroughly effective the Budget and Accounting Procedures Act of 1950.

If the Congress, made up of the chosen representatives of the American people is to exercise any constitutional degree of effective control over the executive branch, it must be in a position to control the amount of money to be expended by it. Effective control over the purse is one of the most important devices available to Congress for protecting the American people from the potentiality of irresponsible expenditures.

OMITTED HOOVER COMMISSION RECOMMENDATIONS

A few of the Hoover Commision's recommendations for budget and accounting were omitted from H. R. 9402 for various reasons.

The most obvious recommendation which is not implemented in the bill is recommendation No. 7 which would put the executive budget and congressional appropriations in terms of annual accrued expenditures. It was thought that this would require changing the present manner of handling long lead-time programs, such as major procurement and construction contracts, primarily in the Department of Defense, and that enactment of such a measure would necessarily be better deferred until development of a basic foundation and adequate accounting and an ability to program effectively. In this connection,

however, the subcommittee will no doubt be interested in the views of the General Accounting Office as expressed in their comment on the bill wherein the Comptroller General states the office's opinion that the accrued expenditure provision should also be incorporated in such legislation. Inclusion of such an amendment would, apparently, also make necessary the provision of general authority for agencies to contract for programs that require several years to complete.

One or two other recommendations were omitted because they were considered to require the development of adequate systems before they would have any effect.

Hoover Commission recommendation No. 8 relating to limitations upon legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control was omitted because, other than as a hopeful statement of policy, no measures short of constitutional amendment could effectively bind future Congresses to such a policy.

Hoover Commission recommendation No. 18 which would relieve the General Accounting Office of the need to approve claims on lapsed appropriations, was omitted because of the pendency of such legislation before the Congress.

Hoover Commission recommendation No. 19 which would allow the Comptroller General to relieve accountable officers of financial liability except where losses result from gross negligence or fraud was omitted because it was felt that the present provisions of Public Law 365, 84th Congress, considered and reported as H. R. 7034 by this committee last year, are adequate to provide relief of the nature intended.

CONCLUSION

In view of the need for improved fiscal performance, the savings in the cost of operation of the Government to be realized through efficient financial management, and the need to put the Federal budget on a basis so that Congress can more intelligently make the important policy determinations as to the extent and scope of Federal programs, I strongly urge that the committee take favorable action on H. R. 9402 at the earliest practicable date, after making such amendments as it deems necessary so that the Congress in this session will be able to take positive action in this field of financial management, which is of such prime importance to every citizen.

Until steps such as those included in this bill are taken, the Congress will continue to encounter great difficulty, due to inadequate factual information, both in attempting to properly analyze the budget itself and in considering the appropriation bills covering the projected operations of the many departments and agencies of our Government.

I believe that favorable committee action upon this type of legislation would be a logical and necessary step to further the objectives of the Budget and Accounting Procedures Act of 1950 which this committee was so instrumental in bringing into being.

I wish to thank and commend Chairman Dawson and the members of this subcommittee for the interest and concern you are showing in the consideration of this type of legislation.

Chairman DAWSON. Mr. Jonas?

Mr. JONAS. That is a very fine statement, and I am very glad to have had the opportunity of hearing it. I don't know, Mr. Chairman, whether I am familiar enough with the bill and with its objectives to ask any pertinent questions.

I would prefer to defer any questions I might have until a later time until I have a chance to study it a little more in detail.

Would you elaborate however just a bit informally there on what is involved in cost-based budgets?

Mr. LIPSCOMB. Mr. Jonas, on the cost-based budget basis each agency and department would show exactly what they have spent in a certain fiscal year prior to the presentation of their budget for the next fiscal year.

They would show actual expenses and actual accruals, that is for things that they are preparing to buy, for the next fiscal year, so when Congress looks at that particular item, they can show exactly what they expect the cost to be. That is in terms of services, materials, supplies.

Mr. JONAS. The advantage would lie in the fact that the Appropriations Committee would have before it and therefore Congress in turn would have before it the complete picture, not only of appropriation requests for the new year but the entire costs of the program?

Mr. LIPSCOMB. That is right, and not only future estimated costs but also what they did in the past on a specific subject. A few agencies in Government at the present time are doing this. Such as the Atomic Energy Commission, the Bureau of the Mint, and some of the Government corporations are already doing this.

But that has not been general throughout the Government.

Mr. Chairman, with your permission I would like to sit throughout these hearings and I will be glad to answer any questions that I can at a later time.

Chairman DAWSON. We would welcome the opportunity to have you sit with us during the time they are testifying and ask some questions which you think are indicated to enlighten the subcommittee on the matters before us.

Have you finished, Mr. Jonas?

Mr. JONAS. Did you contemplate that Mr. Lipscomb remain here in the committee that he might have the privilege of asking questions too? I think that would be a good idea.

Chairman DAWSON. Certainly.

Mr. LIPSCOMB. I also left with the committee three documents that I mentioned in my statement to be included in the record.

Chairman DAWSON. Without objection your request will be granted.

On page 5 of your statement, section 2 would also create the position of comptroller in each agency and generally outline his duties. This will create how many new positions in your judgment?

Mr. LIPSCOMB. Mr. Chairman, I can't answer that question. I do not know. Perhaps one of the department officials that are here can. I believe, in reference to that particular section, that the committee will want to do quite a bit of research. I am not at this time completely convinced that we want to do it that way, but I think that throughout the hearings of this committee you can get adequate facts on that particular subject.

Chairman DAWSON. Are you of the opinion that these comptrollers should be men who have been trained in public accounting?

Mr. LIPSCOMB. I believe they should have a well-defined background in accounting and also should have some familiarity with government accounting.

It appears to me that there is a great deal of difference between industry accounting and government accounting, and I think the background should include some governmental accounting.

The bill specifies that the Bureau of the Budget should help the agencies determine qualifications for these people and also help in their selection. I believe that is another item that we should look into carefully as the bill progresses. I am convinced that we need people with good background, good knowledge of accounting and also having an interest in the job.

Chairman DAWSON. Mr. Jonas?

Mr. JONAS. Do you contemplate entirely new positions? Most agencies, as you have stated, have positions in some specialty which correspond to a comptroller. Most of the agencies call that official the "fiscal officer."

Mr. LIPSCOMB. That is right.

Mr. JONAS. Do you contemplate a new position or a reassignment or redefinition of duties? Wouldn't it be the fiscal officer in most of these agencies who serves the same capacity as the comptroller?

Mr. LIPSCOMB. Yes; the name I believe is the unimportant thing at the time, whether they are called fiscal officer or chief accountant or comptroller, that is unimportant.

Mr. JONAS. You don't necessarily contemplate the creating of a new position in each agency then?

Mr. LIPSCOMB. I believe——

Mr. JONAS. I mean a new person.

Mr. LIPSCOMB. I believe under the bill that perhaps that would be the outcome. However, some agencies today have a comptroller, such as the General Services Administration. But I believe that this bill indicates that he needs more responsibilities and more direct liaison with the chief or secretary or the head of the agency, and also sets out more specific duties and requirements for that particular position.

Mr. JONAS. I know from my service on the Independent Offices Subcommittee of the Appropriations Committee in the 83d Congress, we had 44 separate Government agencies that came before our subcommittee.

They ranged in importance from the Atomic Energy Commission we had General Services, TVA, Veterans' Administration, and Battle Monuments Commission.

Every one of those agencies had what I would loosely call a comptroller. They may not call him on their chart a comptroller but they had a fiscal officer. I just was wondering whether it is your idea in this bill that an additional person should be engaged by each of these agencies in addition to the redesignation of title?

Mr. LIPSCOMB. If the internal management and the present performance of the job as fiscal agent or whatever the title is, is not sufficient to fulfill the objectives of this bill, I think a new position should be created.

If the position now exists and the objectives of this bill can be put into effect under the existing position, that would be sufficient. But it is my opinion—and I don't mean to be critical of all agencies

throughout Government—that not enough emphasis has been put on adequate and informative accounting records in the agencies, and that the Government as a whole has shown a lack of initiative and interest in such a subject, although a great deal is now being done in this respect and a lot of people are working hard in trying to do it.

Chairman DAWSON. A comptroller, in order to comply with the requirements of this bill, ought to have some knowledge of accounting, and so forth.

Mr. LIPSCOMB. I think that you will find that people in these positions throughout Government have a knowledge of the accounting in their agencies.

Maybe the head of the agency or others have not put enough emphasis upon or have not shown enough interest in the work that the man is doing.

Chairman DAWSON. The thing that is interesting to me is if this is going to demand quite a few persons with the type of salaries that the Government pays its employees and with the demand for public accountants by industry, I don't see how we will get capable men to do the work.

Mr. LIPSCOMB. Mr. Chairman, that is one of the big troubles within our Government today, that we do not recognize the necessity for adequate salaries for topnotch professional people. And I can speak from personal knowledge only in the accounting field, but it is practically impossible for Government agencies to get the type of people they need in top professional accounting jobs at the salaries that we can pay in Government.

The accounting firms and private industry can offer them much more. And here we have the biggest business in the world where finances are vitally important, and yet we can't pay enough to get adequate records.

And then Congress is asked to evaluate the records that came up and appropriate for the next year, and the budget justifications are just insufficient for us to do the job that our people sent us here to do.

Until we recognize that we must take a look at these professional salaries in all fields—engineering, accounting, doctors, and the rest—we are going to continue to get less efficient people than we really need.

Chirman DAWSON. Are you of the opinion that if your system is put into effect, the savings that will be made under it will justify the employment of topnotch men at good salaries?

Mr. LIPSCOMB. Yes, sir, that has been said and there has been a figure used. It was used by the Hoover Commission Task Force—it has been estimated by the task force that if these recommendations were put into effect we could realize savings of approximately $4 billion annually. It is a figure that you can't put your finger on.

Chairman DAWSON. Four billion?

Mr. LIPSCOMB. Four billion. It is a figure you can't put your finger on, and nobody can analyze it because it is in a field where you can't put it right down on paper. But I am convinced that good accounting procedures and good information resulting from such procedures would produce great savings to the people, more than we will spend in putting any such program into effect.

Chairman DAWSON. Mr. Henderson?

Mr. HENDERSON. I take it from what you say then that you don't have any specific information to support the $4 billion figure?

Mr. LIPSCOMB. No, sir; I don't believe anyone can adequately to your satisfaction justify the $4 billion figure. As I said, it is one of those things that is intangible. But I believe that without exception people recognize and will state that this particular type of legislation will result in a great saving to the Government.

Mr. HENDERSON. If the new procedure which you suggest is installed, will it change the present method of appropriation on the basis of obligational authority?

Mr. LIPSCOMB. Yes; it could well lead to that eventually.

Mr. HENDERSON. Would you suggest why that present system has continued so long in the Government?

Mr. LIPSCOMB. I can't tell you why that has remained so long.

Mr. HENDERSON. As over against a cost-based system?

Mr. LIPSCOMB. In some parts of Government, in the smaller agencies there would be work in the field of services and supply. They are very close to a cost basis now because it is in the field where they have long lead time contracts or other programs that cost-based systems have been made practical.

I think there has been a great reluctance on the part of some agencies to change because they are satisfied with what they are doing and have not kept up with adequate and modern accounting principles.

And then again I think Congress is partly to blame or at fault for not looking at this problem more objectively. Again, things have been going along all right and therefore we have not been willing to recognize that we are behind in our ways. That is probably why it has not been put into effect. As I understand it, there was a move to go into a performance or program budget, but we were not ready for it at that time and therefore that came in for a lot of criticism.

We have to do the groundwork and spadework first before we get thoroughly into the program and performance budgeting.

Chairman DAWSON. Mr. Pincus?

Mr. PINCUS. I have one or two questions on the bill for clarification. In section 1 (a) there is a provision about certain types of reports that carry out one of the recommendations of the Hoover Commission, and I think it is a provision that is common to several of the bills before the committee, Mr. Chairman.

My question was whether Mr. Lipscomb could tell us a little more about what kind of reports are contemplated in this section 1 (a) and wherein they would differ from the budget as it is now sent or any information that the Budget Bureau now furnishes.

Would that be a requirement that there be an annual report or would there——

Mr. LIPSCOMB. There are really two reports.

Section 5 of the bill also provides for a report that the Comptroller General and the Bureau of the Budget would make about duplicate accounts and the adequacy of internal auditing.

The other report provided for in section 1 (a) would be the duty of the Director of the Bureau of the Budget—

To prepare comprehensive reports other than purely fiscal reports showing the financial results of the activities of the departments and establishments.

It is my belief that this is being done in some fashion at the present time, but the reports are not informative enough and therefore this is a congressional mandate. This shows a congressional intent that these reports should be more comprehensive and more informative, showing the effectiveness and efficiency of the management of the division or agency and also showing their operation costs and expenditures. In other words, this is making it a more comprehensive report.

Mr. PINCUS. This would also be an amplification of the annual budget but not necessarily submitted at the same time as the budget.

Mr. LIPSCOMB. These reports would be prepared from reports to the Director of the Bureau of the Budget in preparation of the budget that he sends up to the Congress.

Mr. PINCUS. I am referring to line 11 on page 1:

> Such reports shall be prepared on fiscal-year basis or at such shorter intervals as the director may deem practicable and shall be transmitted to the President and to the Congress.

Mr. LIPSCOMB. Well, in my opinion, Mr. Pincus these reports are just more comprehensive reports than those that come to the Congress on the operations of the agency and the divisions. They differ from the Comptroller General's report inasmuch as the Comptroller General's report is a history of the audit of particular agencies.

These are prior to that and would contain information as to what the agencies are doing and how their financial management is.

Mr. JONAS. May I ask a question right there?

Mr. PINCUS. Yes.

Mr. JONAS. Have you examined any substantial number of justifications, formal justifications, written justifications, prepared for use before the Appropriations Subcommittee by the various agencies?

Mr. LIPSCOMB. No, sir; I have not examined the justifications. I have read a great many of the hearings.

Mr. JONAS. Each agency in its hearing before the appropriate subcommittee furnishes in detail what the committee calls a justification for the appropriation requested.

Mr. LIPSCOMB. That is right.

Mr. JONAS. I just wonder if an examination of those justifications would disclose the need for additional information in these comprehensive reports. I am inclined to believe that in many cases those justifications do contain all the information you contemplate.

Mr. LIPSCOMB. Mr. Jonas, I can only go a little further than that and talk about the Comptroller General's audit reports that he submits to Congress. With few exceptions the Comptroller General has to say in his audit reports that he cannot certify the figures contained in audit reports submitted to Congress because of the insufficient accounting records that are available to them.

Now if the Comptroller General who is an expert, and has expert auditors on his staff, cannot follow through and justify the figures that are submitted, I don't see how it is possible for a justification to be made for all of the figures that come up to Congress for the budget.

The whole background and purpose of this bill, in my opinion, is to get adequate and true accounting records so that the figures that come to Congress in the justifications are correct and informative.

I am not aware of how deeply the Appropriations Committee goes into the justifications and how far back into the record they go to prove out the justification.

Sitting on the Military Operations Subcommittee of this committee, I have seen cases where justifications have not been gone into thoroughly, and money has been appropriated year after year for an item, in one case, that one of the military departments did not even need or did not use. But they were able to justify that year after year just by bringing the figure to Congress. In that respect I am talking about a report on procurement of Army overcoats where they justified over a hundred million dollars worth of overcoats for 4 different years that they did not need.

And that is the kind of a thing that I think that this type of bill will straighten out.

There has been a lot of work done in the agencies on creating monetary property accounts and inventory records, but this bill will tell the executive branch of Government that Congress wants better figures sent up to the Hill and better justifications.

Chairman DAWSON. Do you have any other questions?

Mr. JONAS. No.

Chairman DAWSON. Thank you very much, Mr. Lipscomb. We would appreciate it if you sit with us.

Mr. LIPSCOMB. It will be a privilege, Mr. Chairman and thank you for all your time, sir.

Chairman DAWSON. We will now hear from Mr. Brasfield, Assistant to the Comptroller General, accompanied by Mr. John Moore, the General Counsel for the General Accounting Office.

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL; ACCOMPANIED BY JOHN MOORE, ATTORNEY, OFFICE OF THE GENERAL COUNSEL, GENERAL ACCOUNTING OFFICE

Mr. BRASFIELD. Mr. Chairman, we have a statement which I would be glad to pursue if that meets with your pleasure?

Chairman DAWSON. Identify yourself first.

Mr. BRASFIELD. I am Karney A. Brasfield, Assistant to the Comptroller General and I have with me Mr. John Moore, Attorney of the Office of the General Counsel.

We appreciate the opportunity to appear before you to discuss H. R. 9402, H. R. 7209, H. R. 7338, and H. R. 8326, which are designed to implement certain of the recommendations contained in the Budget and Accounting Report of the Hoover Commission. We will deal first with H. R. 9402 which is the broadest of the three bills.

We regard H. R. 9402 as basic legislation designed primarily to set forth general policies and objectives. Most of these policies and objectives would be put into practice under rules and procedures to be developed by the Bureau of the Budget, and, in some cases, by the Comptroller General.

In other words, the bill would prescribe no hard and fast procedures and the practical aspects would have to be worked out in collaboration with the agencies.

Moreover, there must necessarily be an evolutionary approach to the attainment of the objectives contemplated by the bill because not all agencies now have the necessary tools in the form of systems of programing, budgeting, and accounting.

It is believed, however, that a statement of objectives of the character contained in the bill would do much to hasten the development of such working tools.

Mr. Chairman, I now go into a discussion of the specific provisions and if you care to interrupt anywhere along the line, I will be most happy to have you do so.

Section 1 (a) relates to comprehensive reports other than purely fiscal reports to be prepared by the Director, Bureau of the Budget.

Inasmuch as this section pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities, we believe this is a matter which can best be determined by the Bureau and the Congress.

We suggest the desirability, however, that such information be obtained through the regular budgetary processes and be included in the President's annual budget.

Section 1 (b): This section would amend section 216 of the Budget and Accounting Act, 1921. If cost-based budgets were used for management purposes in making fund allocations within the departments and establishments as proposed by section 216 (a), the information submitted for budgetary purposes would be substantially more meaningful. We endorse this proposal and will develop our discussion of it more fully in our comments on section 216 (c).

As to the proposed section 216 (b), we believe the President should be kept informed, in a timely manner, of significant factors relating to the operating agencies of the executive branch.

However, the annual consideration of the budget would seem to be the appropriate vehicle for this purpose and we doubt the need for a separate report. We believe that the major program or bureau level is ordinarily the most meaningful basis for reporting purposes.

Proposed sections 216 (c) and (d), if effectively carried out, would offer an excellent opportunity for improvement in the financial management of executive agencies.

Briefly, the more important advantages from the use of cost data in budgeting are:

1. Cost data (based on man-days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.

2. A proposed work plan (budget) stated in terms of costs (resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.

3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.

4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influence.

In using the term "cost-based budgets" we understand it to have equal application to capital acquisitions and construction as it does to day-to-day operations.

For example, a cost-based budget for a procurement activity would relate to the cost of the items being procured or the cost of producing an article or a service. Cost budgeting need not be restricted to consumption operations.

However, in considering consumption operations, there is obviously a limit to which the concept can be carried and still have a practical value.

For example, careful consideration would need to be given to the extent which the inclusion of depreciation as a cost would serve a useful purpose in the presentation of budgets to the Congress. This is particularly true with respect to the activities of the Department of Defense. The value and utility of cost-based budgets are certainly not dependent upon the application of depreciation concepts to military hardware.

The primary advantage of budgeting on a cost basis to both management and the Congress is that total resources to be used (on hand, on order, and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request.

In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures, and costs in those many operations primarily concerned with personal services.

On the other hand, dollarwise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets.

Major procurement, construction, and research and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

It should be noted that agency budgets can be formulated and administered on a cost basis under present practices of stating appropriation authorizations on an obligation basis and this is currently being done in some cases. The cost presentation is confined to the justification material in the greater number of such instances.

However, the impetus to furnish cost data to the Congress would be greatly enhanced by teaming up the cost-based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 of the Hoover Commission Report on Budget and Accounting. This would provide the best opportunity for improved correlation of programing, budgeting, and accounting. We strongly recomemnd the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis.

The best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) consideration of accomplishments in preceding periods, and (3) costs for both in terms of total resources consumed.

With this point of departure the budget can then be assessed in terms of (*a*) costs to be incurred, (*b*) resources already available in terms of inventories, and so forth, plus carried over funds, and (*c*) new money or authority needed. The essential difference in this approach, which ties in with the recommendations for cost budgets and accrued expenditure appropriations, as contrasted with present practices based on appropriations stated in terms of obligation authority, is the degree of emphasis which the latter places on new money rather than on total resources to be consumed and the extent of resources already available.

In other words, it is a question of degree.

The advantages of placing appropriations on an accrued expenditure basis are both tangible and intangible. The annual budget surplus or deficit is determined on the basis of expenditures, not grants of obligational authority.

Establishment of a direct correlation between annual appropriations and expenditures vests in the Congress a much greater opportunity to control the level of operations during a particular budget year.

This would mean the elimination of the vast carryover balances now available for expenditure at the discretion of the executive agencies.

The present situation concerning available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

It is inherent in the recommendations under discussion that congressional authority be granted for the advance planning which necessarily precedes the phase of operations covered in an annual accrued expenditure budget. In the past, this authority has been termed "contract authorizations" but it is a significant fact that heretofore both contract authorizations and subsequent appropriations were stated in terms of obligational authority whereas under the recommendations herein being considered only the initial authorization would be stated in terms of the broad and difficult-to-apply concept of obligations whereas annual authority could be stated much more definitely in terms of accrued expenditures because of the time factor.

It is essential that the initial authority which may cover a forward period, sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans.

On the other hand, as these plans take shape in succeeding years much more precise planning and authorizations are practical when stated in terms of accrued expenditures. Thus, the current recommendations are not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

Section 1 (c) : The proposed section 218 of the Budget and Accounting Act, 1921, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involves management decisions affecting that Bureau.

We believe these are matters which can best be determined by the Bureau and the Congress and, accordingly, we offer no specific views in the matter.

Section 2 (a) : Our comments above on the proposed sections 216 (c) and (d) are equally applicable to this section 2 (a). We therefore endorse the objective to obtain consistency in organizational structure, budget classifications, and accounting systems within each executive agency.

Section 2 (b) : We endorse this amendment to section 113 of the Budget and Accounting Procedures Act of 1950. The maintenance of accounts on an accrual basis is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill.

Experience under the joint accounting improvement program

clearly indicates that the accrual basis, when applied to significant items, is a major factor in providing better control over resources and liabilities and is an essential element in obtaining adequate cost data.

Our statement of accounting principles, that is the statement of accounting principles prescribed by the Comptroller General under the Budget and Accounting Act of 1950, provides for the appropriate use of the accrual basis.

We also believe that adequate monetary property accounting records, as an integral part of accounting systems, are essential to several other proposed amendments such as accrual accounting, cost budgeting, and so forth, as well as the specific advantages to management which will result from adequate financial accounting for property.

Section 2 (c) : The proposed section 120 of the Budget and Accounting Procedures Act of 1950 would establish a Staff Office of Accounting in the Bureau of the Budget. The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting.

The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government.

The Budget and Accounting Procedures Act of 1950 sponsored by this committee recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General, for making continuing improvements in the financial management of Federal Government activities.

The General Accounting Office does not understand that Recommendation No. 10 of the Hoover Commission report, which this section of the bill implements, was intended in any way to impinge upon the respective responsibilities assigned by the Budget and Accounting Procedures Act of 1950 or to lessen the effectiveness of the cooperative systems work of the General Accounting Office with the executive agencies. The Commission stated in connection with this recommendation:

> The above recommendation does not intend in any way to criticize the activities of the Comptroller General in connection with the joint accounting improvement program. The accomplishments of this program which are largely attributable to General Accounting Office have been noteworthy, and cooperation between the General Accounting Office and the executive agencies must of course be continued.

In dealing more specifically with the Comptroller General's responsibility for prescribing accounting principles and standards, the Commission had this to say on page 58:

> The Comptroller General's responsibility for prescribing the principles, standards, and related requirements for accounting to be observed by each executive agency has resulted in his issuing a statement of accounting principles and standards for guidance of the agencies.
>
> These principles and standards which were developed in consultation with the executive branch have been set broadly, are sound, and permit flexibility in their application. They have been helpful and in our opinion are in complete harmony with the proper objectives of accounting improvement in the executive branch.
>
> The Comptroller General is not charged with any administrative responsibility to insure the adoption of prescribed systems and standards, but he is charged

by law with reviewing the systems and reporting upon them to the Congress.

During recent years the Comptroller General has cooperated with the Treasury and the Bureau of the Budget in the joint program for improving accounting.

The Comptroller General has been, particularly through the General Accounting Office's Accounting Systems Division, an inspiring and constructive influence in developing consciousness of the need for accounting reforms in the executive agencies. This Division has assisted commendably in devising and installing improved systems and procedures.

Yet, excellent as this performance has been, it is only a partial substitute for the motivating forces required within the executive agencies themselves.

We agree that added emphasis within the executive branch on getting the job done governmentwide could be very helpful in expediting progress if appropriately carried out. We do not believe, however, that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation.

Moreover, we question the desirability of specifically providing for an organizational unit and for the position of assistant director for accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

The new section 121 of the Budget and Accounting Procedures Act of 1950 also proposed by section 2 (c) of the bill, would provide for the appointment of a comptroller in each executive agency. We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of the proposed section 121.

However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies.

Section 3: The simplification of the allotment system for allocating funds is sound and most desirable. The existing unwarranted subdivision of funds is one of the greatest deterrents to improved financial management.

We believe that administrators may be willing to forego the type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control. Better programing tied in with improved accounting through the development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Section 4: This section would require each executive agency to maintain a single account under each appropriation title of that title or fund.

We endorse the objective of this proposal but feel that it should be adopted for only those appropriations or funds which are stated on an accrued expenditure basis. We strongly favor the use of two accounts where such accounts are not stated on an accrued expenditure basis.

Section 5: This section would provide for a joint study by the Bureau of the Budget and the General Accounting Office relating to accounting and internal auditing.

Much has been accomplished in these areas in the past by the General Accounting Office both on its own and under the joint accounting improvement program with the Bureau of the Budget and the Secretary of the Treasury.

This work is carried on as a regular part of our comprehensive audit program and in the discharge of our accounting systems responsibilities.

We expect to continue these studies and investigations. The results of these efforts are made available to the Congress through our regular reporting processes, but we would be pleased to cooperate with the Congress in any special effort having as its objective the improvement of accounting and internal auditing.

H. R. 7209 and H. R. 7338 are identical bills designed to implement recommendations Nos. 10, 11, and 12 of the Budget and Accounting Report of the Hoover Commission.

The objectives and most of the provisions are identical with sections 120 and 121 of H. R. 9402 which were covered in our discussion of that bill.

H. R. 7209 and H. R. 7338 would provide for the Assistant Director for Accounting to be appointed by the President, by and with the advice and consent of the Senate.

These two bills also would provide by statute the compensation of the comptroller to be appointed by the head of each executive agency.

As stated before, although we agree with the objectives sought, we doubt the desirability of this legislation for the reasons cited earlier.

H. R. 8236 is similar in its objectives to the amendment to section 213 of the Budget and Accounting Act, 1921, proposed in section 1 (a) of H. R. 9402. It would provide for submission by the Director of the Bureau of the Budget to the Congress of annual reports with respect to the financial results of the activities of all branches of the Government and of each executive agency thereof, including the costs of such operations and activities, the assets and liabilities of each agency, the extent of its contingent liabilities, if any, and other pertinent data and information.

Since this bill pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities, we believe this is a matter which can best be determined by the Bureau and the Congress.

We suggest the desirability, however, as indicated in our comments on section 1 (a) of H. R. 9402, that such information be obtained through the regular budgetary processes and be included in the President's annual budget rather than through the medium of a separate report.

Chairman DAWSON. Mr. Jonas?

Mr. JONAS. Mr. Chairman, as I heard Mr. Brasfield read this statement and as I read it, I formed the impression that a good part of these recommendations you agree with.

Mr. BRASFIELD. That is right, sir.

Mr. JONAS. With respect to some of the details you are not in agreement, you don't think they are necessary or even proper.

Mr. BRASFIELD. Desirable I would say.

Mr. JONAS. And on other recommendations you don't make any comment because you think that they are matters that should best be determined by the Bureau of the Budget and the Congress.

Mr. BRASFIELD. That is right, sir.

Mr. JONAS. Could you pinpoint your own opinions without requiring the reading of these 11 pages again and say which sections do you generally approve?

Mr. BRASFIELD. Let me try it this way.

Mr. JONAS. If you could summarize what you said.

Mr. BRASFIELD. The essential elements in this bill that we believe are appropriate for legislation are cost-based budgets, accrual accounting, property accounting, the consistency between classifications for programming, budgeting, accounting and reporting, and the synchronization of budget and organization and the simplification of the allotment or fund control processes. Those are all basic accounting and financial management provisions. There is another element that we believe would make financial practices much more effective and that is appropriations on an accrued expenditure basis. However, I would like to add to that. In our viewpoint the appropriate way to pursue this objective would be to authorize it at this point leaving it up to the President to implement it and with that goes the thought that its implementation would be a cooperative effort with the Appropriations Committee.

In other words we recognize that no substantial changes would be made in current budget practices except in complete harmony with the Appropriations Committees.

Mr. JONAS. Would you further comment on section 121? That is the need for comptroller in each agency?

Mr. BRASFIELD. If I may I would like to pick up with your previous comments. We think that the emphasis on the financial management function and getting it at the appropriate level in the agencies would be desirable. Because the agencies have different missions and objectives, because they have different types of organization—some bureaus are a part of departments, some organizations, for example, the independent establishments are big bureaus in themselves—we do not believe it desirable to try to legislate duties and functions. In one case the Secretary of the Department may have an Assistant Secretary who in effect performs the comptroller function. In another case he might want to assign that responsibility to a different individual. It might change from time to time as the individuals change. In other words organization must necessarily sometimes be fitted to the people available and their talents. We doubt that this matter should be frozen into law.

Mr. JONAS. You mean now you doubt if a position should be created to be called a comptroller, but you recognize the importance of the activity?

Mr. BRASFIELD. That is right.

Mr. JONAS. Somebody having the assignment of that responsibility, and directly responsible for it?

Mr. BRASFIELD. That is right and at the proper level in the organization to command the respect and authority that is needed to make it successful. If I might comment a moment further, in some cases the job is now set up as an Assistant Secretary.

In other cases such as was cited, that is the General Services Administration, the job is set up and labeled "Comptroller."

It is a matter for management to properly set up the function and to staff it with the right kind of people, but we do not think you can cut it all to one pattern and it would be undesirable to do it by statute.

Mr. JONAS. What title does Mr. McNeil of the Department of Defense have?

Mr. BRASFIELD. He is Assistant Secretary of Defense. He is Comptroller and has the title of Assistant Secretary of Defense. It may not be a good example for our discussion, because that job is provided for by statute.

In the State Department an Assistant Secretary has been assigned the function of Comptroller. In the case of the Veterans' Administration you do not have Assistant Secretaries but they have a Comptroller.

Mr. JONAS. He is called a comptroller.

Mr. BRASFIELD. He is called a comptroller. In some cases he might be an Assistant Administrator, in an independent office where you do not use the title of Secretary.

Mr. LIPSCOMB. Mr. Chairman, would you yield, Mr. Jonas?

Mr. JONAS. Yes.

Mr. LIPSCOMB. Isn't that one of the problems that we have, that these comptrollers or fiscal officers have such different duties that each agency maybe has a different idea of what that particular person is responsible for. Isn't this one method that we can get expressed the congressional intent as to what a comptroller or a chief fiscal officer is by putting it into legislation?

Mr. BRASFIELD. We would seriously doubt the desirability of legislating a particular job, because it may well differ in the broad stretches of our Government between, for example, an agency such as the Securities and Exchange Commission which has relatively few people, we doubt that they need any job set up as comptroller and it would not be of the same stature and the same level as to take the other end of the spectrum, the Department of Defense.

We think that management should be free to place these particular functions in their organizations where they would be most effective.

In the major departments and agencies and the major bureaus of those departments we think there should be a person when the functions comparable to that usually associated with comptroller.

Mr. BROWN. Will you yield at that point?

Mr. JONAS. Yes.

Mr. BROWN. If this were necessary, couldn't it be provided by this bill that either an officer be named or the assignment be given to some person?

Mr. BRASFIELD. It could be.

Mr. BROWN. I know something about SEC or used to, and I don't like to differ with you, but I still think they could use a little checking once in a while on their agency, as far as the Comptroller is concerned. Perhaps not as much as one of the executive agencies, but someone should be charged with the responsibility of doing what a comptroller would do, even if it only takes 1 hour a week.

Mr. BRASFIELD. I would assume that the function is now performed in that agency.

Mr. BROWN. Shouldn't Congress provide that it be done in every agency of Government, either through a full-time individual who might be named where necessary, or someone assigned to that task? That is the intent of your bill, as I understand it.

Mr. LIPSCOMB. If you will yield, on pages 6 and 7 of the bill are 5 functions which are proposed that a comptroller would carry out.

As far as those five functions are concerned, GAO recognizes that those are the things that are necessary to every agency and department; isn't that right?

Mr. BRASFIELD. We would have no quarrel with the discussion of the five points.

Mr. LIPSCOMB. But your point is that you don't feel that it should be expressly stated in the law in section A which would say that a comptroller should be put in there to do those things. If we can set out those points, expressly state that those are the objectives of the bill, and leave it up to the Administrator to see that they be done, whether he appoints somebody or creates a new job or lets the present person do it, that would meet with your objective?

Mr. BRASFIELD. That is right. Our comments are directed to the proposal to set up a statutory position, which we doubt the feasibility of.

Mr. LIPSCOMB. In other words, if Congress would pass legislation specifying that these duties should be performed, and leave it up to the administrative officials to see to it that they are done, that would meet with what you are suggesting.

Mr. BRASFIELD. That is right.

We have no question that these functions need to be performed.

Mr. LIPSCOMB. GAO recognizes that these functions set forth in this legislation are not being performed in all agencies and departments at the present time.

Mr. BRASFIELD. That would be true. Again it is largely a question of degree. Some would be perhaps totally lacking, so to speak, in one point, weak in others, or some might be strong in all of them.

Mr. LIPSCOMB. But as a whole, we can't afford to really be weak in any of these five points. Isn't that right?

Mr. BRASFIELD. Right. The significance of the problem would of course differ considerably as to the type of operation performed by each agency.

Mr. LIPSCOMB. But because the situation differs, there is no reason that these functions should not be performed to whatever degree is necessary.

Mr. BRASFIELD. We certainly agree with that. There is no question on that.

Mr. LIPSCOMB. Your thought is directed specifically to the particular wording of section 121 (a) and not to the five points set forth.

Mr. BRASFIELD. That is right. We agree with the objective but doubt the desirability of creating a statutory position.

Mr. JONAS. Your same objection applies to section 120 (a) that is, the establishment of a position of assistant director of accounting.

Mr. BRASFIELD. As far as creating it by statute; yes. There again we agree with the objectives and some steps have already been taken in that direction, I understand. As a partner in the joint program, we would welcome a strong participation on the part of the Bureau of the Budget, particularly in their field of tying budgeting and accounting together. There it would be particularly helpful.

Mr. JONAS. How would you contemplate that the Director would assign someone to carry out these duties?

Mr. BRASFIELD. As I understand it, he has already, sir. He has named Mr. Rappaport as the Assistant Director for Accounting.

Mr. JONAS. If he does that administratively and without any mandate from Congress, there would be nothing to prevent succeeding directors from eliminating that position entirely.

Mr. BRASFIELD. That is a possibility.

Mr. JONAS. Would you have any real serious objection to Congress saying that there shall be a position in the Bureau of the Budget, the head of which is assigned the duties of supervising this activity?

Mr. BRASFIELD. Again it is the general idea of creating statutory positions. In this case you have a number of assistant directors in the Bureau of the Budget, including a deputy, which are not statutory jobs. So if this legislation were set up, you would have one statutory job among a number of similar jobs within the Bureau that are not statutory.

Also some of this legislation requires that appointments be with the advice and consent of the Senate. I think that might be getting into some other considerations that you would be more familiar with than myself as to the President's immediate family.

Mr. LIPSCOMB. Mr. Chairman, will Mr. Jonas yield?

Mr. JONAS. Yes.

Mr. LIPSCOMB. In view of your comments on section 120, you would make the same statement then that you would not disagree that the Bureau of the Budget through this legislation should be directed to set up a position that carries out the intent of the points listed on pages 5 and 6 of the legislation before us?

Mr. BRASFIELD. I would express some reservations as to the exact manner in which it is proposed to set up the organization and job by statute. It should be brought into focus with the coordinated responsibilities already set up in the Budget and Accounting Procedures Act of 1950. I would suggest the desirability that if one of the three coordinated responsibilities are to be reviewed for legislation, you should review all of them. I would think it would be desirable to review each of those coordinate responsibilities. To legislate separately on one might lead to some unintentional conflict.

Mr. LIPSCOMB. Are you speaking of the joint program to improve accounting?

Mr. BRASFIELD. That operates through the coordinate responsibilities of the Director of the Bureau of the Budget, the Secretary of the Treasury, and the Comptroller General, each having their own responsibilities under the Budget and Accounting Procedures Act of 1950.

I suggest, if you wish to consider one of those coordinate responsibilities, you would probably wish to consider all three together.

Mr. LIPSCOMB. You undoubtedly realize that the reason Congress is seriously looking at this problem is because the executive branch has not taken action before, and therefore we would be telling them by this legislation that we believe it is a necessity and we want it to be in the legislation. We feel it should be a continuing process and therefore that is why the statute is here. That has not been done to date, has it?

Mr. BRASFIELD. I cannot speak to the specific duties assigned to the Assistant Director of the Bureau of the Budget, and perhaps that should be discussed with the Bureau. I understood the public information release to say that the Director of the Bureau of the Budget

has adopted the recommendation of the Hoover Commission report 100 percent administratively, not legislatively, of course.

Mr. LIPSCOMB. So all we have to do is tell them that we agree with their position and want to see it continued?

Mr. BRASFIELD. You have the additional problem in reviewing the coordinate responsibilities already set up in the act from a language standpoint, and I would not want to address myself specifically to the language of this statement, except to do it coordinately with what is already in the 1950 act.

Chairman DAWSON. Now, any further questions, Mr. Jonas?

Mr. JONAS. I yield.

Mr. BROWN. Mr. Chairman, I am sorry I was detained unavoidably and could not get here in time to hear Mr. Lipscomb testify and to hear all the testimony that has been given by the gentleman here. As you know, I served on the Hoover Commission and helped write these recommendations.

Chairman DAWSON. Both Hoover Commissions.

Mr. BROWN. Probably the budgeting and accounting recommendations involve problems which are more difficult and more technical than anything we had to consider. And it was a bit troublesome for those of us on the Commission who were not certified public accountants or experts in budgetary matters to get the complete picture and understand the matter as thoroughly as we would like.

So I am especially pleased that Mr. Lipscomb, who is a certified public accountant, has seen fit to take hold of this legislation and get his teeth into it, not only for the Congress but the Commission and the committee.

We had on the Commission the benefit of the advice of the best and greatest accountants that we could find in the country, and many of them gave their services free of charge. We had checks and counterchecks, not only by representatives of certified public accountant organizations, but by fiscal representatives of large corporations and others who had something to do with such matters.

We talked with a great many public officials and made a study of this problem. We found there was no question that reform was needed in both budgeting and accounting practices in the Federal Government; and that there was opportunity to save a great deal of money, and to get greater efficiency in the conduct of the public business.

Do you agree that there is a need for action such as this?

Mr. BRASFIELD. We agree that it would be highly desirable to put into legislation the financial provisions of the Hoover Commission report and those are the ones that I referred to previously.

Mr. BROWN. When you limit yourself to the world "financial" provisions, do you mean both budgeting provisions and accounting?

Mr. BRASFIELD. Yes.

Mr. BROWN. The Bureau of the Budget, I think after consultation with our task force and with members of the Commission, after a considerable soul-searching discussion with many authorities, decided that it was wise to put into effect most of these recommendations, as far as budgeting was concerned, by administrative order.

Don't you agree, then, if that is found to be a good thing, we ought to write into law that it is not only a continuing matter, but that it is the intent and purpose of Congress this thing be done?

Mr. BRASFIELD. We agree, sir, and have in our testimony indicated we think it would hasten these developments greatly, if Congress would state the objectives to be their policy.

Mr. BROWN. And I understand you agree with Mr. Lipscomb and Mr. Jonas that you want these things done, although you disagree with the way the statute states that some particular person should be appointed and have a title to do that, and that only?

Mr. BRASFIELD. Certainly.

Mr. BROWN. Do you know of any agency in Government where it would hurt to have some person assigned to keep an eye on this?

Mr. BRASFIELD. Not at all. We would certainly agree with the objective.

Mr. BROWN. So if there were an amendment which provided either an accounting officer be named or some person be assigned to that duty, that would be sufficient to meet your objection, wouldn't it?

Mr. BRASFIELD. That is right. Our comment raised the question of the desirability of a statutory position and also in some of the proposed legislation it had the suggestion of a statutory salary which would obviously be quite a spread when you take the biggest and smallest agency or department.

Mr. BROWN. I objected to some of that. I always said the Hoover Commission should not create new jobs. That does not create economy. It might create efficiency. You can always find a way to cut down the responsibilities of some existing office without creating a new one.

Mr. BRASFIELD. There undoubtedly would be a need for some new talent or reassignments that would bring people to this work that have greater qualifications than existing personnel in some cases.

Mr. BROWN. The Congress has provided a statute, if I recall correctly that you have an officer of this type in the Department of Defense.

Mr. BRASFIELD. That is right, sir.

Mr. BROWN. In fact it is quite an office. Instead of just one officer, there is a large staff. One agency might need a large staff with a specific officer in charge of that staff, or it might need only one individual who would give part-time attention to that matter but it ought to be done.

Mr. BRASFIELD. That is right.

Mr. BROWN. In most of these departments the accounting office has a man sitting there making preaudits; isn't that true?

Mr. BRASFIELD. The agencies preaudit their payments before they make them except with respect to a rate audit of transportation where the statute provides that they do not do so.

Mr. BROWN. That has grown up because agency heads are a little fearful to go ahead unless they know it is all right with the General Accounting Office, and is according to law, and of necessity you had to put people into those departments?

Mr. BRASFIELD. The agencies have the responsibility by law for determining the adequacy and accuracy of payment in the first instance. Our function is one of coming along later and postauditing them in our comprehensive audit.

Mr. BROWN. Actually you preaudit a great amount.

Mr. BRASFIELD. We do not preaudit generally.

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Mr. BROWN. You at least advise. We run into a lot of your people that just stay there in that office.

Mr. BRASFIELD. We are always open to assist agencies, and the Comptroller General has a statutory duty to respond when any certifying officer raises a question as to the legality of a proposed payment.

Mr. BROWN. You still are responding, because such agencies still have representatives of the GAO assigned to them all the time. Isn't that true? They do actually preaudit, whether you call it that or not.

They pass on it and say, "We will O. K. that when the postaudit comes along."

Mr. BRASFIELD. That is more nearly a legal type of situation where they have a question, not necessarily for a particular type of transaction, but in some cases it is an individual transaction.

Mr. BROWN. I am bringing that up for a purpose. If this bill is enacted and if you had some individual who is charged directly with the responsibility of supervising these accounting practices, and so forth, in an agency, either on a part-time or full-time basis, wouldn't it make it easier for you in your accounting work and in your checking, to have such an arrangement?

Mr. BRASFIELD. I would say it would not essentially change the present situation in that respect. We have that now for the most part. The things we are dealing with here, for example, cost-based budgeting, change less the audit of vouchers than perhaps any other thing we have talked about.

There has been on the part of the agencies in some cases if anything to do more, to overdo the legalistic checking of expenditures, to be sure that they are within the law and within the appropriations, and so forth.

They think they should do it; so do we. We do it on a test-check basis, depending on how far they have gone and how adequate their processes are.

We think it should be their primary responsibility rather than ours to do it on a detailed basis.

Mr. BROWN. How far back is the Post Office Department in their accounting practices now? At one time they were 17 months behind.

Mr. BRASFIELD. I could not answer as to the extent of their individual operations. I would say that the Post Office has made more progress——

Mr. BROWN. I understand that it was 17 months behind 3 or 4 months ago.

Mr. BRASFIELD. They have made extremely good progress in modernizing their whole system, and we think they are to be commended for an outstanding job.

Mr. BROWN. I agree fully with the gentleman. How far behind is the GAO in postaudit work on the Post Office?

Mr. BRASFIELD. I would have to supply it specifically.

Mr. BROWN. Just generally. Take a guess.

Mr. BRASFIELD. They are under comprehensive audit, which means our auditors are in their main office year round. We have a crew of people who are assigned to the audit of the Post Office. We rotate the members of it, but we will have at all times a crew working on it, and we use our field offices, too.

Mr. BROWN. You have that in most of the major departments. You have it in the Department of Agriculture, the Department of Defense, Department of the Interior, for example.

Mr. BRASFIELD. Yes. That is the type of audit we are carrying on in the Post Office.

Mr. BROWN. How close to being up to scratch are you on the average?

Mr. BRASFIELD. I do not think I can answer your question just that way, because we do not go back and review each individual voucher as we used to. When we had the voucher-type audit, we could say we had not audited the vouchers for a particular period. Now, when our audit is aimed at the effectiveness of fiscal work, we audit a post office like Chicago. We will finish that after 6 months' work and render a report.

Mr. BROWN. It will be about 6 months behind when the final report comes out?

Mr. BRASFIELD. The length of time that it takes to get out a particular audit report would vary with each one.

A small post office could be finished up rather rapidly. We select the units that are to be examined in greater detail. We use those as test cases of their management effectiveness.

Mr. BROWN. Spot checks?

Mr. BRASFIELD. That is right. Then we bring together at periodic intervals our overall findings, such as we did something over a year ago for the Post Office and Civil Service Committee. We made a previous report for them about 2 years before that. But, for example, in the audit of the Post Office Department we have reviewed the activities of numerous post offices, reported to the Postmaster General, and also made the report available to the postmaster at the location so he can take immediate corrective action within his jurisdiction and the department can take the additional action within their jurisdiction.

Mr. BROWN. May I ask, Mr. Chairman, whether or not the Treasury Department's statement has been included yet?

The CHAIRMAN. Not yet; they are waiting to testify.

Mr. BROWN. I would like to have, later on, the comment of the gentleman, if he would be willing to make it, on the Treasury's recommendations. I think that fits in rather well with the suggestions and recommendations of the Commission, and also of others in Congress, that certain responsibilities be placed in the Treasury Department. I presume your agency will agree with that.

Mr. BRASFIELD. We would be glad to make ourselves available at whatever time you wish.

Mr. BROWN. I would like to have his comment on this later on. That is all.

Mr. LIPSCOMB. Mr. Brasfield, you mentioned depreciation. Is there any need for writing into the bill any procedure that should be followed in handling depreciation?

Mr. BRASFIELD. I would not suggest so.

Mr. LIPSCOMB. That could be worked out in some executive arrangement.

Mr. BRASFIELD. There is only one situation where depreciation might be considered where it is not now. That is, in some of the business-type enterprises that have been set up it might be helpful if the depre-

ciation could be added to their pricing and thereby the agency be given the authority to modernize their equipment through funds accumulated from depreciation.

Such authority does now exist with reference to the Bureau of Printing and Engraving. I am talking about the equipment, not building.

Mr. LIPSCOMB. There is no need in this legislation to mention how depreciation should be handled.

Mr. BRASFIELD. I would not think so, sir.

Mr. LIPSCOMB. Then you mentioned recommendation No. 7 of the Hoover Commission which has to do with the accrual budget. The thought originally behind H. R. 9402 was to get things going first, getting the accounting system into effect and the cost-basis systems and the accrual accounting before we wrote into any statute the type of budget to be sent to Congress.

If we write into the legislation that recommendation 7 should be put into effect, how long would it take, in your estimation, before we got to the point that we could fulfill recommendation 7?

Mr. BRASFIELD. That should be undertaken by each appropriation item and certainly each bureau rather than even one complete department, and I would say some of them would be ready for that tomorrow. Others would be a year, or 2 years, it would depend upon the present status of their accounting and programing and budgeting system but I would point this out anyway, if I may, please. The real incentive to get progress in these collateral fields that form the basis for accrued expenditure appropriations is to a great degree based upon what they think Congress wants.

In other words, we have been troubled in our present efforts by the fact that the agencies say, "Why should we go ahead with accrual accounting; it is not asked for in the budget. Congress has not asked for this type of information." It is for this reason that legislation of this character would be a great stimulus. The same thing is true—and let me address that comment specifically to cost-based budgets. The same thing can be said to be true in our opinion of changing the basis for appropriations. If you say wait until you get everything in order and you will then change it, it will never be changed because the incentive won't be there to accomplish it in the first place.

Mr. LIPSCOMB. Do you feel there would be great confusion in the Appropriations Committees if you started part of the departments on an accrual basis and the rest came up on the old basis?

Mr. BRASFIELD. I do not. I doubt that you could successfully ever carry out these reforms by sweeping across the whole Government by a single stroke. We think that would be a serious mistake under any type of broad reform of this character.

You have to take them agency by agency. The subcommittees within the Appropriations Committees in themselves would be a basis to invite consideration. The fact that the agency and the subcommittee is ready for it, might well be a basis for going ahead in a particular area where another subcommittee might not be ready for it.

Mr. LIPSCOMB. Do you feel that in this particular legislation there should be at least a declaration of intent and policy?

Mr. BRASFIELD. We think that without such a declaration, the other provisions of the legislation will tend to die on the vine and dry up.

Mr. LIPSCOMB. Then it appears that you have some concern about the joint accounting improvement program, and I for one assure you that it is not the intent as far as I am concerned to jeopardize any portion of that particular program by this particular legislation. And I hope that it isn't read into it in any way that the program should not continue as now presently constituted.

Mr. BRASFIELD. If you are referring to the portions of the Hoover Commission report that are quoted in my statement that is addressed specifically to our cooperative working relationships with the agency which we have found vital to stimulate improvement.

Mr. LIPSCOMB. You say in your statement:

> We do not believe, however, that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation.

Mr. BRASFIELD. That is right, sir.

Mr. LIPSCOMB. Are you competent to state or do you have reason to feel assured that the executive agencies have taken enough initiative in this joint program or put enough people in there to cooperate with you in your work with their agencies?

Mr. BRASFIELD. I think that anyone in a specialized field such as our own, perhaps, has a desire always to be impatient and think their own part of the business is the thing that should receive priority.

Your question can only be answered agency by agency or bureau by bureau, as a matter of fact. That is one of the great troubles that we have in trying to characterize this mammoth Federal Government as an entity.

It is an entity but not for purposes of appraising management. You have to get further down the scale than that to talk about management.

Mr. LIPSCOMB. If legislation were introduced and passed to strengthen the accounting and auditing, wouldn't it help facilitate more aggressive action all throughout Government in the joint accounting program?

Mr. BRASFIELD. We think so. It has already stimulated a great deal of interest. We would like to see the basic parts of the recommendations put into legislation.

Mr. LIPSCOMB. If you feel that way, why don't you say that you feel that such legislation is required? How will we get that type of action if we don't specify it from Congress?

Mr. BRASFIELD. The part where we said that legislation is not required, if I understand what you are discussing, is directed to section 120, not the whole bill. You said "required." There may be an area that you will want to determine as to whether or not it is desirable. Further it seems to me that our viewpoint that it is not required tends to be substantiated by the fact that the Director of the Bureau of the Budget has administratively set up such a staff office for accounting and says he has adopted the recommendations.

Mr. LIPSCOMB. As Mr. Brown just mentioned, we want to guarantee that it is going to be continued and aggressively worked on.

Mr. BRASFIELD. Then I would suggest that it be approached from the same standpoint we discussed earlier, that is, by stating an objective more on a functional basis rather than the creation of a statutory position. I would urge also if you wish to review 1 of the 3

fields of activity now defined in the Budget Accounting Act, I would suggest the thought that you review all of them concurrently.

Mr. LIPSCOMB. In respect to section 5 you commented about the joint study by the Bureau of the Budget and the GAO and you say:

> This work is carried on as a regular part of our comprehensive audit program and in the discharge of our accounting systems responsibilities.

Again wouldn't legislation have the effect of putting more initiative into the study program and be of great value to the Congress in getting these studies up?

For instance, how much of the Government does the comprehensive audit program now cover?

Mr. BRASFIELD. There we have the difficulty of finding a common denominator as you know. The expenditures under comprehensive audit were between 30 and 50 percent. We are working at that each day to extend it.

I could perhaps discuss it a little more effectively in this way. Our comprehensive audit program is pretty well along and rather across the board effective in Agriculture, Interior, Treasury, and there is not the same need for it in Labor, or in Justice. With reference to the Department of Defense, in a reorganization which is now being put into place, we have a civil accounting and auditing group and a defense accounting and auditing group.

One of the objectives of that reorganization was to hasten the day when our comprehensive audit program was more effective in the Department of Defense.

It would be a fair statement to say that in the Department of Defense our comprehensive audit program is just now getting underway. We have made some audits of industrial funds. We have made procurement surveys but I would say it would be a fair statement to say that it is just now geting well underway.

Mr. LIPSCOMB. Then it is a true statement to say then that about 40 percent of the expenditures of the Government are presently under comprehensive audit, and in the largest field, the Department of Defense, where over 60 percent of our expenditures are made, that the comprehensive audit program has not started but is just getting underway?

Mr. BRASFIELD. That is started and is just now getting well underway.

Mr. LIPSCOMB. So this legislation wonld put more emphasis on a stndy being made and a report being made to the Congress because of a mandate, so to speak, by the Congress that we want this done, and that we don't want any more delay or conversations and other things that have held up the matter.

Mr. BRASFIELD. If I understand the provision of the bill that is under discussion, it is the one that would have the General Accounting Office report on the internal audit activities in the Department?

Mr. LIPSCOMB. Yes.

Mrs. BRASFIELD. I might say that the matter we are discussing has these ramifications, for example, the Army audit agency which is the internal audit agency of the Army has approximately the same size staff as GAO does. It is already in being. In the case of the Air Force, they have a broad internal audit program underway and so does the Navy.

This provision as I would understand it, would have the Director of the Bureau of the Budget and Comptroller General undertake a study as to the adequacy of internal auditing in the executive department and agencies and we have indicated that if you wish to make a special undertaking out of that we would be glad to cooperate.

That is not as broad or is not the same thing as introducing our comprehensive audit program into a department. Review of internal audit as one element of internal control comes into play in our comprehensive audit but by no means is a review of the internal audit activities of a department more than one part of our comprehensive audit.

In other words, a great deal of our time in Defense has been spent on reviewing their procurement requirements and methods, which their own internal audit has not contributed to substantially up to this point but they are also working in that field at the present time.

Mr. LIPSCOMB. The only reason I brought up the comprehensive audit program is that you mentioned you covered the whole field and said that your comprehensive audit program was already in this field and therefore you did not think it was well to write into the legislation.

Mr. BRASFIELD. We did not say that. We said we expect to continue these studies and investigations. The results of these efforts are made available to the Congress through our regular reporting process but we would be pleased to cooperate with the Congress in any special effort having as its objectives the improvement of accounting and internal audit. We have no objection if you wish to write it into law.

Mr. LIPSCOMB. You have no objection to section 5?

Mr. BRASFIELD. We have no objection. We wanted to review the situation and recite the fact that we would be willing to join in it.

Mr. BROWN. You think it is a good thing and you want to tell the Congress you have already started it; and are willing to continue it.

Mr. BRASFIELD. We are happy to do this. If you would like for us to make this one a special undertaking rather than being a part of the program we are already carrying out, we will be happy to do it.

Mr. BROWN. That is an endorsement.

Mr. LIPSCOMB. That is all I have. I have one other question, Mr. Chairman.

Mr. Jonas is gone. He asked me a question which I would like to put to you, Mr. Brasfield: Does the GAO have any idea as to whether the cost of implementing this bill would be more than justified by the savings?

Mr. BRASFIELD. That is an intangible thing. We believe that the full implementation of this bill with the annual accrued expenditure approach and cost budgets would create a great deal of economy if appropriately carried out. In other words we believe that in the areas where the greatest part of our appropriations are spent, the procurement, particularly in defense, we think that if the recommendations of the Commission as provided in legislation were carried out, there would be tremendous savings. You will never be able to come back and identify them and put your finger on them and say we saved this much because if they failed to procure something because of better information, you can't document that saving.

You can document the waste that results when you overproduce, but you cannot document the savings achieved when you did not procure

something in the beginning because you now have information that leads you to decide not to procure it.

Mr. LIPSCOMB. If the budget requests and expenditures then go down, we will know then.

Mr. BRASFIELD. Then you may have to relate that to world changes if you have changes in the meantime. We think that with the cost-based budget, property accounting and accrual accounting and giving costs to management, these savings will primarily be made by management where they should be made. If managers have the tools of modern accounting and budgeting to guide them we think that savings will come within the departments as well as by the review of that same data by the Congress.

Mr. BROWN. Won't the adoption of these recommendations, or putting them into practice, also result in greater savings in inventories and things of that sort?

Mr. BRASFIELD. That is where the major savings will take place.

Mr. BROWN. They won't be out buying something they already have.

Mr. BRASFIELD. That is right.

The CHAIRMAN. Hamburgers.

Mr. BROWN. Yes, hamburgers.

Mr. BRASFIELD. The major savings will be in the procurement, maintenance and operations.

Mr. BROWN. Mainly related to procurement?

Mr. BRASFIELD. Yes.

Mr. BROWN. Some so-called authorities, or experts, have estimated that it might be possible to make savings of as much as 2 to 5 billion dollars a year, if proper accounting practices and budgeting were established, providing the Congress and the people are properly informed and the law is properly administered.

Mr. BRASFIELD. We could not answer that one, sir.

Mr. BROWN. But you do think it would be large sums?

Mr. BRASFIELD. We do believe it will be. We grant you it will never be documented where you can put your finger on it. We believe that managers generally want to do a good job. We think the mistakes they make are primarily because they do not have the facts to operate on. We think they would exercise good judgment in most cases—there would always be some lapses—but the opportunity for savings is to give management an opportunity to exercise its judgment in an intelligent fashion having the facts. We think if they had that they would reach the same conclusions as would you generally speaking, and allowing for human frailties.

Mr. PINCUS. I have a question on one section of the bill on which we don't seem to get any recommendations from the GAO. The executive agencies seem less than enthusiastic, understandably from the operations viewpoint, and yet it seems it would be one of the most important recommendations. I refer to recommendation 1 (b); that the budget bureau shall place in important agencies one or more well-qualified employees whose duties should include continuous year-round review at the site of the agency of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities.

That is contained in Mr. Lipscomb's bill on page 3, section 1 (c) of the bill adding section 218 to title 2 of the act. In your testimony

Mr. Brasfield on page 6, you apparently did not prefer to comment saying that the matter could best be determined by the Bureau of the Budget and the Congress. The Bureau of the Budget seems to object to that provision and just taking one agency, for example, the Treasury Department does not seem too enthusiastic about it. In that connection, I would like to ask whether following up on some of Mr. Brown's earlier questions, is it not a great improvement to the GAO in its operation to be able to have and to have in each agency qualified personnel that can do onsight work rather than the old system where you received a mass of vouchers and went over those one by one?

Mr. BRASFIELD. Of course, we think putting our people out on the ground where the operations go on and reviewing their management practices and the way they are carrying out their program is much more effective than sitting at a desk and reviewing vouchers.

Mr. PINCUS. In your opinion you cannot do as effective a job by merely reviewing papers and documents after the fact and after being received from the agency as you could have by having an inside view of what is actually going on in the agencies?

Mr. BRASFIELD. I think there are 2 or 3 questions involved in that. I would like to comment on them separately. One, I think we would perhaps all agree, including those who have worked at it, to sit behind a desk examining papers at another location is not an effective way as talking with someone about it. The Bureau of the Budget does hold hearings to discuss their budget, so you have a measure of it.

I do not want to get too far into the way the Bureau of the Budget runs their business. They can more properly answer it themselves.

I know that the Budget Bureau representatives do go out and take field trips through field offices and that sort of thing. I think that is helpful. It gives them a better idea of the operations being carried on. It gives the agency an opportunity to discuss with them many of the problems that you do not have time to do in a hearing.

Mr. BROWN. Have you ever by chance seen any of the communications or recommendations submitted by an agency to the Budget Bureau when they wanted to create a new position or activity—the write-up?

Mr. BRASFIELD. In past years I have, and from my experience in the executive branch I have seen some of those.

Mr. BROWN. You have seen some of those. They are about as good as any real-estate prospectus that ever came out of Florida. Those are submitted to the Bureau of the Budget at the present time. Wouldn't it be more effective and conducive to greater economy and efficiency if the Bureau of the Budget had somebody down there who knew whether the activity was needed or not, or a certain employee or group of employees, and was an expert on that agency's particular field of activity? Wouldn't that be helpful?

Mr. BRASFIELD. I cannot disagree with the statement you make. I would add to it my own experience in the executive branch would indicate to me that the Bureau of the Budget does have people who are familiar with those things by reason of their working with the agencies.

Mr. BROWN. Generally, but most of the checking is done down in the Budget office.

Mr. Brasfield. There is a problem involved in this that in part, accounts for the reaction you get. That is the question of privity within an administrator's own work force. For a period of time when he comes up with the budget to the Budget Bureau—and I think it involves the same problem as privity within the executive branch before the President submits his budget—I think that problem gets into this section, and that is the general idea of having someone from the Bureau of the Budget sit in your administrative council, so to speak, in an agency I think, is repugnant to some on the basis that you should have some privacy of administration before some outsiders come into your business.

Mr. Brown. Just a minute. I did not specifically have in mind that the individual should sit in on the conferences fixing up the budget for the department, but he would certainly be consulted if he were down there. He would be consulted by the Director of the Budget when they went over the budget submitted by the agency, and he should be in a better position to suggest which item be accepted or rejected.

Mr. Brasfield. It is a question of relationships within the executive branch and it is a difficult one. I suspenct that one of the things that there should be is a relatively high degree of flexibility as to the manner in which these operations are carried out on the part of any agency whether it be the Comptroller General or the Bureau of the Budget or the Treasury.

I think there needs to be left to the Administrator a considerable degree of being able to manage his own business with the resources that he has to get the best results. I think that is in part involved in this problem. I think there is also the question of relationship and as I say the privy of counsel within an administrator's own field.

Mr. Brown. May I close by saying that for 20 years I have seen considerable in the way of appropriation items and approved by the Bureau of the Budget when it came up that, I am convinced were not studied out in the field or checked very closely, or the items would not have been approved.

They have taken somebody's word or desire for it.

Mr. Brasfield. The whole process occurs over a relatively short period of time and it is a massive operation and it is not possible certainly to deal with each and every item.

Chairman Dawson. Any further questions?

Mr. Pincus. I have one more on that point. Do you think that any budget examiner could possibly be, as a general proposition, as well informed as your own auditors in the agency?

I am not speaking of being privy to any conference but I mean on a day-to-day basis or as well informed as the inspector who is in the agency and knows what goes on in the agency on a day-to-day basis? Regardless of how many annual field trips he might make during the summer or any other type of visit of that sort, would you think that would be possible?

Mr. Brasfield. I think you have set up your question where you have your own answer. It seems obvious to me that the knowledge will have a relationship to the time that the individual spends in the agency and I could hardly answer your question in any other way than positively—the way you proposed it, I don't believe.

The Chairman. Mr. Henderson?

Mr. Henderson. What are the arguments for the retention of the present budgeting system?

Mr. Brasfield. There are many arguments on both sides. I would be glad to try to review them rather briefly. There are a number of actions that have to take place in the administration of funds. At the present time most of those are centered on the obligation process, with the thought that it keeps you within appropriations and undoubtedly at one time it was probably considered that it also led to economy.

I think we are dealing here in part with a question of the Government catching up with techniques that have developed in business.

This same discussion of costs and control through costs is something that has grown up in the private business world within the last—to the degree of emphasis we are now discussing—within the last 20 years.

There is the necessity to control funds, whether they are appropriated on an obligation basis or accrued expenditures. The control in the case of personnel (salaries) is a relatively simple one either way you go and you would do it at the same point in the process.

So I think we can dismiss as not being significant the real difference between these two insofar as personal services and expenses and appropriations of the ordinary garden variety.

The differences develop in the procurement field. The difference is one of timing. It seems reasonable to assume that you cannot ask folks to tell you exactly what it will cost to procure airplanes that are still on the drawing board. But as they approach the point of contracting for those, some of that is Government furnished equipment—many different things come together—when you come within a year or so of the place where that plane is coming off the line you should have rather clear ideas of both when it will be delivered and how much it will cost.

It is at that point that the cost based budget will give both the management and the Congress a great deal of information.

I think this should be relatively clear and this is one of the reasons why we have advocated the accrued expenditure appropriation because we think it will enhance congressional control.

If it enhances congressional control, it must necessarily take discretion or freedom away from someone. You cannot increase congressional control without a diminution of agency freedom of action.

For that reason, it is understandable that there would be something less than complete enthusiasm on the part of the operating agency.

On the other hand we feel that with good management and dealing effectively with the Congress, that this will be helpful to both. Then it will clear up much of the misunderstanding which now exists. You are familiar with the recurrent confusion each year in the foreign-aid program, of how much is authorized, how much is available, how much is obligated, all of the confusion that exists. We think this would go a long way to straighten that out. The contracting authority or advance authorization should not be expected to be detailed with specific individual plans but rather those authorizations should be on a broader basis.

Then as you come up to the point where it is reasonable to expect that plans will be detailed and costs will be ascertained, the budget

submitted for that period in terms of accrued annual expenditures for the year ahead Congress has a right to expect rather accurate and detailed work plans.

It is within that orbit—I am sure this is a very broad question and we could go on into a much longer discussion.

I will be also glad to pursue it as long as it is useful to you.

Mr. HENDERSON. Thank you. Just one other thing. I take it from your statement that you have no information to justify the Hoover Commission's statement that $4 billion could be saved by the enactment of these recommendations?

Mr. BRASFIELD. We would not be able to support that figure. I would have to repeat that it is hard to document mistakes you do not make. That is true of what we are talking about here.

In the question of change I think also we cannot overlook the human resistance to change. I think this is very important too. The department or agency that is getting along pretty well and has satisfactory relationships with its appropriation subcommittee would have a tendency not to change anything. If they were in trouble and so forth, then the willingness to change comes much more readily.

Chairman DAWSON. You have spoken, Mr. Brasfield, several times of your experience in the Government and you stated you were in the executive branch and now you are with the GAO.

Would you state for the record your background of experience?

Mr. BRASFIELD. I am a certified public accountant. I spent approximately 20 years in the executive branch in the business type activities, more specifically the Farm Credit Administration, of which I became Comptroller, the Commodity Credit Corporation, of which I was both Treasurer and Comptroller at different periods. I transferred to the General Accounting Office as Assistant Director of its Systems Division in 1952, and have since been engaged in the work of the General Accounting Office, leading up to my present assignment as Assistant to the Comptroller General in the Accounting and Auditing area.

Chairman DAWSON. Thank you. In the light of your past experience, do you believe that legislation is indicated at all?

Mr. BRASFIELD. It is both the position of the office and my personal opinion that achievement of the basic financial provisions of the Hoover Commission recommendations will move much faster if they are written into law, and I refer specifically back to the summary I gave to Mr. Jonas earlier.

Chairman DAWSON. Does this legislation create any possibilities that Congress will be deprived of certain kinds of budgetary information?

Mr. BRASFIELD. I can only believe it will lead to greater information to the Congress.

Chairman DAWSON. Do you think that is beneficial?

Mr. BRASFIELD. I do, sir.

Chairman DAWSON. Does this legislation require a radical change in the concept of a balanced budget?

Mr. BRASFIELD. I believe that recommendation No. 7 of the Hoover Commission when tied with cost budgeting it will greatly aid toward reaching a balanced budget because you would have a common denominator to deal with. When we now look at whether or not the budget

is balanced in terms of expenditures and we appreciate in terms of obligating authority the two never come together.

Chairman DAWSON. Does this legislation also impair in any way the accounting responsibilities of the GAO; in other words, is there any revival of various schemes to make accounting wholly an executive function?

Mr. BRASFIELD. I couldn't answer, sir, as to the intent or the objectives of individuals. I would rest on the testimony that I have already given. We do not understand that the Hoover Commission recommendations are intended to change the functions of GAO.

I would repeat at the same time that if legislation on functions is to be considered that all of the three coordinate parts, meaning the Secretary of the Treasury, the Director of the Bureau of the Budget, and Comptroller General, should be looked at concurrently.

Chairman DAWSON. It ought not to be left up to the whim of succeeding persons who may be heads of any department and we ought to make it a requirement by law where we consider a function to be essential.

Mr. BRASFIELD. Insofar as dealing with a general statement of functions, that might well be true.

To go further to a statutory position, I think you may create a situation that would become outmoded as circumstances in the world change and this statutory job does not change..

Chairman DAWSON. Don't you think it is better to secure the present benefit in the light of the past conditions—secured by legislation and then amend your legislation to meet what the future might bring rather than leave it in the air when it is not operated to the best interests of the country?

Mr. BRASFIELD. In that connection I would say as to the basic financial provisions, yes. As to the question of whether you leave it to the management to determine organization and jobs, I think that is a more difficult one from the legislative standpoint.

Chairman DAWSON. For instance, each agency regardless of size should have someone to meet the responsibility—we won't call him a comptroller—but whether that was all of his duties or not, maybe he had other things to do. But somebody ought to be charged with that responsibility in each agency.

Mr. BRASFIELD. I see no objection to that.

Chairman DAWSON. Then why not make that a provision rather than leave it up to the discretion of the Administration.

Mr. BRASFIELD. As long as you do not create a statutory job, I would say yes.

Chairman DAWSON. Why not cerate a position and a statutory function, create the function in each agency?

Mr. BRASFIELD. Function, yes.

Chairman DAWSON. And say that a person shall be charged with that responsibility.

Mr. BRASFIELD. The function, yes, the statutory job I would seriously question.

Chairman DAWSON. The function and the job as to doing the function, so it seems to me.

Mr. BROWN. I think you have something there, Mr. Chairman.

Chairman DAWSON. That's right.

What we want to do is charge someone in every agency to perform that function and not leave it up to the direction of some succeeding adminstrator.

Mr. BROWN. That's right.

Mr. BRASFIELD. I might say, Mr. Chairman, that we thought you did a good job on that in the Budget and Accounting Procedure Act of 1950 of placing that responsibility on the head of the agency for the first time in the history of our Government.

Chairman DAWSON. There must be some reason to do this now because you admit there ought to be somebody in there charged with that responsibility. Under the 1950 act that does not hold true today, so consequently since that function ought to be there——

Mr. BRASFIELD. If your purpose is to impress upon the head of the agency whom you have already given the responsibility in the statute for the function that he should carry it out more specifically, I would certainly see no objection.

Chairman DAWSON. You state on page 4, at the bottom of the second paragraph:

> We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis.

Since we are considering this legislation in the Congress and since you are an arm of the Congress, do you have any objection to providing us with those amendments that you think would make this bill stronger?

Mr. BRASFIELD. We will be glad to work with you on that.

Chairman DAWSON. We appreciate that very much. Since we are holding these hearings and wish to bring these bills up, will you make time available?

Mr. BRASFIELD. We will do our best, sir.

Chairman DAWSON. Thank you.

Mr. Lipscomb?

Mr. LIPSCOMB. In view of the question you asked, I am sure Mr. Brasfield knows I have the deepest interest and concern for the GAO.

Chairman DAWSON. We all do.

Mr. LIPSCOMB. I wouldn't support or put my name on legislation that was going to take away any of the effectiveness of the GAO as an arm of the Congress. The prime purpose of the legislation, in my opinion, is to strengthen the accounting and auditing in the executive branch of Government.

Mr. BROWN. Will you yield there?

Mr. LIPSCOMB. Yes.

Mr. BRASFIELD. I believe that was the purpose and the intent of the Hoover Commission and that certainly would be my purpose and intent.

Chairman DAWSON. I believe your legislation was designed to do that.

Mr. BROWN. Yes.

Mr. LIPSCOMB. I don't want the impression to get out from your testimony that people should believe that the GAO has the function of taking care of the auditing functions internally within the departments of the executive branch of Government.

Your prime purpose and mission isn't it, is to work on the accounting systems and also on the joint program to improve accounting

within the executive branch of Government in coordination with the Bureau of the Budget and the Department of the Treasury?

Mr. BRASFIELD. I am not sure I understand you. Perhaps your question indicates that I did not clearly answer it before.

Mr. LIPSCOMB. May I put it this way? The GAO does not do the accounting and the internal accounting of the departments and agencies? You do the auditing?

Mr. BRASFIELD. That is right.

We work with them. If I might put it in perspective by saying the Budget and Accounting Procedures Act of 1950 places upon the Comptroller General the responsibilities for prescribing principles and standards and for working with the Budget Bureau and the Treasury and the agency in the development of such principles. The Comptroller General also has the responsibilities to review accounting systems and to approve them when they meet the principles and standards which he has laid down.

It places upon the head of the agency clearly, and that was done the first time in the 1950 act, the responsibility to install and maintain adequate systems of accounting and internal control.

In addition to that, the Comptroller General of course has his audit function, which includes the evaluation of their accounting systems as a part of his audit as well as the checking of the accuracy of their work, the broadest type of review of their management responsibilities.

Mr. LIPSCOMB. As long as legislation is passed that does not jeopardize the effectiveness and responsibility of the GAO, we are on firm ground, and I would appreciate it if the GAO see or read into this legislation any place that we do jeopardize it that you point it out to the subcommittee.

Mr. BRASFIELD. We will be glad to do that. If that is addressed to the point that we think these coordinated responsibilities should be reviewed together, I would agree.

Chairman DAWSON. We certainly deeply appreciate it.

Did you have a question, Mr. Poland?

Mr. POLAND. No, I did not.

Chairman DAWSON. We deeply appreciate your testimony and the time and advice you have given us and we appreciate very highly if we could have this suggested amendment.

Mr. BRASFIELD. Thank you, sir. We will be glad to make ourselves available whenever you want.

Chairman DAWSON. Thank you.

We have with us Mr. Heffelfinger, who is Fiscal Assistant Secretary of the Department of the Treasury.

Mr. Heffelfinger?

STATEMENT OF WILLIAM T. HEFFELFINGER, FISCAL ASSISTANT SECRETARY, TREASURY DEPARTMENT; ACCOMPANIED BY GILBERT L. CAKE, ASSOCIATE COMMISSIONER OF ACCOUNTS, TREASURY DEPARTMENT

Mr. HEFFELFINGER. Mr. Chairman, and gentlemen, I am William T. Heffelfinger, Fiscal Assistant Secretary of the Treasury. I am accompanied by Mr. Gilbert L. Cake, our Associate Commissioner of Accounts. The Treasury has submitted various reports to the

committee on the pending bills and our comments and views on the Hoover Commission recommendations are combined and included and restated in this latest report dated May 18, 1956, from the Acting Secretary of the Treasury to the chairman of this committee.

I will be glad to read this report as embodying the Treasury's views if that has your permission.

Chairman DAWSON. Yes.

Mr. HEFFELFINGER (reading):

This is in reply to your letter of February 21 requesting the Department's views on H. R. 9402, a bill to improve governmental budgeting and accounting methods and procedures, and for other purposes.

The bill would put into effect most of the recommendations on budgeting and accounting made by the Commission on Organization of the Executive Branch of the Government in its report to the Congress dated June 1955.

In replying recently to a request from your committee for comments on the Commission's report, the committee was told that the Treasury is not in complete agreement with the recommendation for organizing the accounting function but that it is in favor of the specific suggestions for simplifying and improving accounting procedures.

The Treasury's views on the provisions of H. R. 9402 are furnished in the attached memorandum.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Very truly yours,

W. RANDOLPH BURGESS,
Acting Secretary of the Treasury.

The views of the Treasury in the accompanying memorandum are as follows:

The Treasury is in general agreement with the objectives of sections 1 (b), 2 (a), 2 (b), and 3 of the bill, which are to increase congressional and executive control over expenditures. These sections would carry out eight recommendations of the Commission, which in essence are:

Recommendation No. 2: Agencies should make annual operating reports to the Bureau of the Budget which in turn should report to the President on performance for the executive branch as a whole.

Recommendation No. 3: Cost based operating budgets, supplemented by performance reports, should be used internally by agencies.

Recommendation No. 4: A performance type executive budget should continue to be used and should be adequately supported by program costs and accomplishments.

Recommendation No. 5: Agencies should synchronize their organization structures, budget classifications, and accounting systems.

Recommendation No. 6: Agency budgets should be formulated and administered on a cost basis.

Recommendation No. 13: The allotment system should be greatly simplified.

Recommendation No. 14: Accounting, budgeting, and financial reporting should be on an accrual basis.

Recommendation No. 16: Agencies should install monetary property accounting.

Section 1 (a) would carry out recommendation No. 22 of the Commission for the preparation by the Bureau of the Budget of certain overall financial reports.

It is not clear just what is meant by "comprehensive reports, other than purely fiscal reports" which the bill would require the Director of the Bureau of the Budget to prepare.

By virtue of the nature of the Treasury's operations as the financial department of the Government, it is the source of a great deal of fiscal data and the focal point of much of the Government's accounting.

Therefore, it is not only logical but practical for the Treasury to be the operating center of accounting and financial reporting as provided for in the Budget and Accounting Procedures Act of 1950.

In this connection, the Treasury now prepares various central reports pertaining to receipts and expenditures, the status of appropriations, the public debt, foreign currencies, assets and liabilities of executive agencies, long-range commitments and contingencies, and other reports having to do with the Government's finances from an overall standpoint. There appears to be no real necessity or advantage to make the Bureau of the Budget which is essentially a staff agency of the President, an operating agency instead of the Treasury in this respect.

Section 1 (c) of the bill would carry out recommendation No. 1 (b) of the Commission that qualified employees of the Bureau of the Budget be placed in important agencies as working contacts. The Bureau of the Budget already has close working relationships on budgetary matters with the executive agencies, and the Treasury doubts that the advantages of implementing this recommendation would warrant the added expense.

Section 2 (c) of the bill relates to recommendations Nos. 10, 11, and 12 of the Commission for the establishment of an office of accounting in the Bureau of the Budget and the establishment of the position of comptroller in the principal agencies of the Government.

The President has recently approved plans and has requested the Congress to provide funds to have the Bureau of the Budget give greater emphasis in its work to the evaluation and advancement of administration in the executive agencies, as a means of more rapidly bringing on improvement in organization and management, including more effective budgeting and accounting practices, throughout the executive branch.

In line with this objective, an Assistant Director of the Bureau of the Budget, with extensive experience in public accounting, has been given the responsibility of developing and supervising an expanded accounting program for the Bureau and of providing leadership on behalf of the Bureau in increasing the impetus to accounting reforms throughout the Government.

The Treasury does not believe it is necessary or desirable to require the establishment of the position of comptroller in all agencies regardless of the need or circumstances which might prevail in a particular agency.

Such action would be a retrogressive step from the progress already made in the direction of making the heads of agencies responsible for proper internal organization and alinement of functions. For example, Reorganization Plan No. 26 of 1950 places such responsibility on the Secretary of the Treasury. Therefore, if the position of comptroller should be considered necessary or desirable, legislation would not be necessary to establish the position and functions.

Section 4 of the bill would carry out recommendation No. 17 of the Commission that the accounting for the payment of old claims, under each appropriation title, be simplified.

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Two bills, S. 3362 and H. R. 9593, have been introduced in the Congress to implement not only this recommendation but also recommendation No. 18 of the Commission to simplify the payment of certified claims. The Treasury collaborated with the Bureau of the Budget and the General Accounting Office in the drafting of such legislation.

Section 5 (a) (1) of the bill would give effect to recommendation No. 20 of the Commission that the Bureau of the Budget and the General Accounting Office make a study with the view to eliminating duplication of accounting in the Treasury and between the Treasury and other agencies.

The Treasury is, of course, in favor of the elimination of duplication.

The joint accounting program is dedicated to the elimination of duplication in accounting, and related paperwork and procedures, wherever it may exist in or between agencies of the Government, including the Treasury Department.

Major accomplishments under this policy are described in the annual reports of progress of the joint program. Hence, the Treasury does not believe that additional studies, as recommended by the Commission, are necessary.

Section 5 (a) (2) of the bill would carry out recommendation No. 25 of the Commission that the Bureau of the Budget and the General Accounting Office make a study to determine the adequacy of internal auditing in agencies. The Treasury would have no objection to such a study.

That embodies our views, Mr. Chairman.

Chairman DAWSON. In other words, you are against the bill?

Mr. HEFFELFINGER. Not particularly against the bill. We are in favor of the objectives of the bill, but whether the language of the bill is a proper vehicle to carry those out, we raise some questions.

Chairman DAWSON. Mr. Lipscomb.

Mr. LIPSCOMB. If we could go into his comments on section 1 (a) on the reporting. If the provisions of the bill that you agree with were put into effect, wouldn't it be necessary for the Bureau of the Budget to receive the reports that you object to being transferred to the Bureau?

Mr. HEFFELFINGER. We feel that we have the basic data to prepare the reports. We do prepare the reports. Copies of those reports go to the Bureau of the Budget. The Bureau of the Budget today can require any reports or data it needs to effectuate its functions. Agencies will submit them. Many agencies are required to submit comprehensive reports to the Congress. Just what is intended by the comprehensive report to the Budget is something we cannot understand. We feel you should spell out more precisely the kind of reports.

Mr. LIPSCOMB. Mr. Chairman, with your permission I would like to read a section from the Hoover Commission report in regard to this recommendation and see if this is true. It says:

> Existing financial reporting fails to provide comprehensive and meaningful information with respect to the operations and assets and liabilities of the Government as a whole as well as for major specific component activities. Financial facts are lacking which would inform the citizen of what the Government owns and owes, the extent of its contingent liabilities, and the cost of its operations. The fiscal reports presently published by the Treasury Department, although important, deal essentially with cash and related transactions. As a result their utility is limited.

The preparation and publication of comprehensive central reports should be a function of the Bureau of the Budget, to be exercised by the proposed Assistant Director for Accounting.

The Bureau should develop these reports from financial information furnished by the executive agencies, including summary fiscal information furnished by the Treasury Department.

That is the thought behind this recommendation.

Mr. HEFFELFINGER. That was written over a year ago. In the joint accounting program, that has been one of the objectives, to strengthen the financial reporting of the Government. In line with that program we have recently made provision to obtain that information and to publicize it. It is now embodied in Treasury regulations requiring agencies to submit information on assets and liabilities, contingent liabilities, and things of that sort. As a matter of fact, the Treasury for years has been assemblng that data and it has been publishing data in those fields. It has not been as comprehensive as possibly the Commission intended, and that is the intention of our current reports, to include all agencies and all phases of Government in the reports of assets and liabilities and in the reports of contingent assets and contingent liabilities, things of that sort.

I will be glad to submit for the record a copy of the Treasury's regulation issued some months ago calling for these reports. This has been a part of the continuing program to improve accounting and budgeting in the Government that we are participating in with the Bureau of the Budget and the Comptroller General.

Chairman DAWSON. You say some months ago. How many months ago?

Mr. CAKE. The regulation was issued in February. The Treasury has had regulations in this field for a good many years. For quite a while they were joint regulations with the Bureau of the Budget, but we obtained this type of financial information and data; that is, in the proprietary field of assets and liabilities, confined largely to the corporations. Our regulations issued last February would extend this type of reporting to all revolving funds of the Government.

Chairman DAWSON. That is 1956?

Mr. CAKE. Yes, sir. That is 1956. And this regulation likewise provides a basic framework for bringing all agencies of the Government into this type of reporting.

Mr. HEFFELFINGER. The regulation was preceded by many months of discussion with the agencies concerned. We wanted to be sure it didn't impose an unwarranted burden on the agencies. We worked with the agencies, the Budget Bureau and the GAO for nearly a year before finally revising the regulations.

Chairman DAWSON. Was that before or after the creation of the Hoover Commission or the issuance of its report?

Mr. HEFFELFINGER. It may have been afterward. That was part of the impetus we have had. We have been giving most of our attention to our basic accounting program in the Treasury. We have had to do first things first. We don't have sufficient staff to operate in all areas. We got our central accounts established and then these reporting adjustments are coming along following that.

Chairman DAWSON. So your studies were based on the Hoover reports, were they?

Mr. HEFFELFINGER. Yes. They preceded the Hoover reports in some respects.

Chairman DAWSON. At the time the Hoover Commission made this study there was a need for the study and the recommendations they made, in your judgment?

Mr. HEFFELFINGER. I believe they intended we have a more elaborate reporting system than we had at that time.

Chairman DAWSON. Since you have voluntarily carried them out, what objection do you see to Congress legislatively requiring that from now on you make these studies?

Mr. HEFFELFINGER. We are objecting to placing this function in the Bureau of the Budget. It seems to be a logical function in the Treasury.

Chairman DAWSON. You think it should logically be placed in the Treasury Department rather than in the Bureau of the Budget?

Mr. HEFFELFINGER. That is right. Where the 1950 act required that it be placed. We think it would require a duplicate organization to be set up in the Bureau of the Budget.

Mr. LIPSCOMB. What difference does it make whether these reports come to the Bureau of the Budget to supplement the intentions of this act or whether the reports come to you? Can't you interchange them without difficulty?

Mr. HEFFELFINGER. We do. When we get the reports we prepare a consolidated, combined report at the same time for the Government. In doing that the reported figures are tied in and reconciled with the cash operations of the Treasury. Then the Bureau of the Budget is one of the users of those reports as well as other agencies of the Government. We are in constant touch with the Bureau of the Budget to furnish them whatever reports they require.

Mr. LIPSCOMB. What objection do you have to the Bureau of the Budget having the reports so they can utilize them all the time? What objection do you have to the reports going to the Bureau of the Budget and your picking them up from the Bureau of the Budget?

Mr. HEFFELFINGER. You can't escape the basic data of the Government's fiscal operation being maintained on the books of the Treasury, and we feel that all financial reports of the Government should be tied into the basic fiscal accounts, the cash operations of the Treasury. To set up a new reporting system in another agency of the Government is naturally going to result in duplication. The Bureau of the Budget would have no way of reconciling the reports it receives with the cash operations of the agency. They can accept the report and make a consolidated statement. But they cannot be assured that the reports received from the agency are tied in and reconciled with the financial accounts maintained on the Treasury's books without setting up a rather elaborate duplicating agency. That is our point, sir.

Mr. LIPSCOMB. Are you talking about setting up a larger agency than would be envisioned in setting up this staff in the Bureau of the Budget and creating a director of accounting?

Mr. HEFFELFINGER. We feel any agency that is duplicating another agency's functions will require an organization. How large an organization would be required I don't know. It depends how wide the term "comprehensive report" is interpreted.

Mr. LIPSCOMB. In my mind I don't see what the difference is whether it goes to the Bureau of the Budget or to the Treasury; you both get the reports.

Mr. HEFFELFINGER. Yes; but it is one thing to get the reports and another thing to determine whether those reports are tied in with the overall fiscal record of the Government. So that one agency won't be reporting one thing to one bureau and another thing to another. They should have consistent reports.

Chairman DAWSON. You don't object to these reports being submitted to you, to the Treasury?

Mr. HEFFELFINGER. No, sir; that is, under the existing law, our responsibility.

Chairman DAWSON. And you don't object for the purposes of following the expenditures and setting up a correct budget that the same reports be submitted to the Bureau of the Budget? Those are 2 different functions that are involved there, 2 different objectives to be reached. You don't make up the budget.

Mr. HEFFELFINGER. The Treasury itself has to prepare certain reports.

Chairman DAWSON. Surely you hold the money.

Mr. HEFFELFINGER. When we have reports from agencies, we in turn consolidate them into a report which the Budget Bureau uses. Those reports are tied to the basic accounts of the Treasury. The agencies do not make those reports. That is a report prepared by the Treasury. If you are going to set up a duplicating reporting system in the Bureau of the Budget, we think it is not justified.

Chairman DAWSON. For purposes of appropriations, the Bureau of the Budget would be the logical place to sift out the immediate appropriations. You don't do that in the Treasury.

Mr. HEFFELFINGER. No, sir; we do not.

Chairman DAWSON. In order to do that, we must have reports from the agency.

Mr. HEFFELFINGER. They do. They get voluminous reports and justifications for appropriations today.

Chairman DAWSON. I don't see a conflict of function here. You get it for one purpose and they get it for another.

Mr. HEFFELFINGER. We read the bill as providing for their publication of these reports. If that is not intended, maybe we have misinterpreted the bill. I do not know.

Mr. LIPSCOMB. Would you have any objection to the reports as suggested by a previous witness just being included in the budget document?

Mr. HEFFELFINGER. They get a number of reports which are now included in the budget document. No, sir; that is not our function.

Mr. LIPSCOMB. Well, then, really it is just a question of interpretation of what we mean here.

Mr. HEFFELFINGER. By "comprehensive reports" from the agencies to the Bureau of the Budget.

Mr. LIPSCOMB. Mr. Chairman, as I said, I don't see any conflict here. They both get reports.

Chairman DAWSON. I don't either. That is what I am trying to find out, the conflict.

Mr. LIPSCOMB. You agree, sir, that our Government accounting procedures can stand having a close look made at them?

Mr. HEFFELFINGER. We do, sir. We have been working in the joint program for 5 years toward that end. We think a great deal has been accomplished by the joint cooperative effort, but it is something that

you cannot do overnight. If you have had experience with Government, as Mr. Brasfield points out, it takes considerable time to lead all the constituent units into any overall change for the Government.

Mr. LIPSCOMB. But you also feel that there can be more initiative put in on the program and that it can be strengthened?

Mr. HEFFELFINGER. Initiative will be encouraged if Congress enacts this legislation, these legislative provisions which are essential, if they want to adopt them—cost-based budgets, appropriations on accrued-expenditure bases—that is required before any further progress in this direction can be made in the joint program. If Congress enacts that, that in itself would be the impetus that is needed.

Mr. LIPSCOMB. It may take away some of the reluctance that certain departments and agencies have to go along with the suggestions of the Treasury Department and the Bureau of the Budget and the Comptroller General.

Mr. HEFFELFINGER. I think you will find that agencies in the fields where we can proceed have been very cooperative when it is within their means to do so. There are certain points to which the agencies cannot go, and neither can we go in the joint program, without having some further indication of the desires of Congress.

Mr. LIPSCOMB. How many people in the Treasury work on the joint program to improve accounting?

Mr. HEFFELFINGER. Mr. Cake has been our principal liaison.

Mr. LIPSCOMB. Just one?

Mr. HEFFELFINGER. He works through a staff.

Mr. CAKE. We have about 15 people as a central staff. Of course, the accounting staffs in the various bureaus of the Treasury Department likewise contribute. But the staff working directly on the program constitutes about 15 people.

Mr. LIPSCOMB. Fifteen people?

Mr. CAKE. On the average. I can supply the exact number for the record if you wish.

Mr. LIPSCOMB. This is not criticism, but you cannot go far in this program with 15 people.

Mr. HEFFELFINGER. The General Accounting Office has been furnishing the spearhead in the joint accounting program, and they have a great many employees in their Accounting Systems Division to carry out much of the detail work.

Mr. LIPSCOMB. Does the Treasury Department have anything to do at all with the records and documents in the agencies that support justification for budgets, and things of that sort?

Mr. HEFFELFINGER. No, we do not.

Mr. LIPSCOMB. So that we cannot help but get the impression, at least sitting on the subcommittee, that these reports going to the Bureau of the Budget would have a great deal of significance as a result of what is intended by this legislation?

Mr. HEFFELFINGER. As we view it, the Budget Bureau gets all the reports that are now required to justify appropriations. We furnish any information that the Budget Bureau requires in justification of our appropriations. I am sure other agencies must do likewise.

Chairman DAWSON. There isn't any need to set up a better accounting system at all, if everything is all right; is that right?

Mr. HEFFELFINGER. We don't say that. We are working and have set up what we feel is a better accounting system for the Government as

a whole. For the last 5 years we have been working in that direction. The accounting system of the Treasury has been improved. It has been improved in a sense that it is also coordinated with the improvements being made in other agencies and it is producing information now which the Congress can utilize in the field of appropriations and obligations and unobligated balances, and things of that sort, under the present system.

Mr. LIPSCOMB. Mr. Chairman, in the work of this subcommittee and with some little knowledge that I have, you just cannot give the public the impression that there needs to be no correction. I don't know what the Treasury has to do at this point with the obligated funds and unobligated and unexpended funds, but I have in front of me a report of the General Accounting Office on the Examination of Department of Defense Certification Under Section 1311. Have you had a chance to see that?

Mr. HEFFELFINGER. I believe I saw that generally.

Mr. LIPSCOMB. For instance, just one item in here, says:

> Expenditure data on the installation records do not agree by hundreds of millions of dollars with the official expenditures reported by the Army and Air Force in reporting official year-end balances and issuing certifications.

It also says:

> The records and documents supporting unliquidated obligation balances are not in such form as to facilitate audit and reconciliation.

Mr. HEFFELFINGER. That is the accounting of the agency.

Mr. LIPSCOMB. These are the things which we are trying to straighten out. If the Department of the Treasury is not too concerned about the type and adequacy of the report you are now getting, why isn't this legislation strengthening this a good thing, and why shouldn't the reporting to the Bureau of the Budget also be done with work on this type of thing year in and year out?

Mr. HEFFELFINGER. We do get those reports now. They are picked up in our central accounts, but we canont go back to the agency and determine whether those reports are accurate or not. That is the function of the Comptroller General who, in turn, audits the reports which the agency sends out. He can point out whether those reports are accurate and whether they balance with the books of the agencies. That is part of our system at the moment. The accounts are predicated upon the reports of the agencies and it is the function of the Comptroller to audit those reports and determine whether they are correct.

Chairman DAWSON. Any further questions?

Mr. LIPSCOMB. No, Mr. Chairman.

Do you anticipate that perhaps we will have witnesses such as the Treasury people back again if we need them?

Chairman DAWSON. I am quite sure they will be happy to come back.

Mr. HEFFELFINGER. We will be very happy to come back.

Chairman DAWSON. Any further questions?

Mr. Henderson?

Mr. HENDERSON. I would like to ask Mr. Heffelfinger if he would give us his views on those recommendations on the change to a cost-based accounting system, and so forth, to which he has no objections, and to state what the arguments are for retaining the present system.

Mr. HEFFELFINGER. I think generally it is felt that as the Congress and the agencies are supplied with greater information showing the costs of particular operations and functions, they will then become more conscious of what is involved in the appropriating process—enacting appropriations for particular functions—that you give more attention to what that function is, what it is costing for that function, what that function is producing and you would be more apt to have a closer control of appropriations with that procedure than you can get now under the existing form of appropriation. I think that is essentially what the new recommendations boil down to in my opinion.

Mr. HENDERSON. That is all.

Mr. POLAND. Could I ask one question?

Chairman DAWSON. Surely. Mr. Poland.

Mr. POLAND. I was interested in the concept advanced by Mr. Brasfield a while ago to the effect that any increase in executive control represented a corresponding decrease in congressional control or the converse, that they are reciprocal functions. I noticed you stated at the beginning here that the objectives are to increase congressional and executive control over expenditures. How would that happen?

Mr. HEFFELFINGER. Well, taking the Treasury's operation as an illustration, the one with which I am familiar, as we in our accounting system produce more information as to the expense of performing a particular function, we then direct our attention to looking at that function, to looking at that cost and, if possible, to getting that cost down. Why is it so high in relation to other functions? Why do some bureaus' costs exceed some other bureaus' costs? We try to pinpoint that.

In the executive control of our appropriation, the Secretary takes that into consideration. When it gets to the Congress, you can do likewise. You can do it on a broader base as to program, as to specific items of administrative cost. You can find out a particular program and the component parts of that program, the administrative costs and the other beneficial costs, and things of that sort.

Mr. POLAND. Your answer is that it would really increase the departmental control in the first instance?

Mr. HEFFELFINGER. Yes, in the first instance.

Mr. POLAND. And it could also increase congressional control?

Mr. HEFFELFINGER. That is right.

Mr. POLAND. How would that affect the authority of the Comptroller General in establishing principles in respect to related procedures in accounting systems?

Mr. HEFFELFINGER. In some of our earlier reports we have raised a question on that as to whether there is any intent here to make any change by legislative function in the Bureau of the Budget. We feel it would be unwise to have responsibilities legislated in both agencies.

Mr. POLAND. You feel it is perhaps ambiguous as it now stands?

Mr. HEFFELFINGER. If that can be interpreted that way. We feel you shouldn't attempt to legislate accounting functions in the Bureau of the Budget without giving very serious consideration as to what functions you are legislating to the Bureau of the Budget and what you are allowing to remain in GAO.

Mr. POLAND. Is there any confusion left as to the joint responsibilities of the Bureau of the Budget and the Comptroller General and the Treasury?

Mr. HEFFELFINGER. None whatsoever.

Mr. POLAND. That is clear?

Mr. HEFFELFINGER. Yes.

Mr. POLAND. Is the question equally clear with respect to Reorganization Plan 26 of 1950?

Mr. HEFFELFINGER. The Treasury feels that that was a very progressive step in Treasury organization, Reorganization Plan 26, which puts all the power of the Treasury in the Secretary of the Treasury. He is responsible for operating the Treasury. No subordinate official is. The Secretary makes his subordinates accountable to him for their operations, of course. But that is our principal objection to setting up a subordinate officer with independent statutory duties which take away from the duties of the Secretary of the Treasury.

We had that before Reorganization Plan 26. There were statutory duties in a number of subordinate officials in the Treasury which the Secretary had no jurisdiction over.

Mr. POLAND. I have no more questions.

Chairman DAWSON. Mr. Brasfield was asked this question: Does this legislation impair in any way the accounting responsibilities of GAO? His answer was that it did not in his judgment. Do you agree with his answer there?

Mr. HEFFELFINGER. Well, he can more competently speak for GAO than I would.

Chairman DAWSON. I asked him: Does this legislation impair in any way the accounting responsibilities. In your judgment it either does or does not. His judgment was that it does not.

Mr. HEFFELFINGER. Well, we do not know what is intended. If the committee and the Congress say that is the intent, naturally it wouldn't. But there is ground for argument or for later interpretation if you put accounting responsibilities in the Bureau of the Budget without specifying what those accounting responsibilities are.

Chairman DAWSON. You heard the proponent of this legislation state that he also did not intend by this legislation to impair the accounting responsibilities of GAO.

Mr. HEFFELFINGER. With that background in the hearings on the bill, that might be the logical interpretation to be given to any legislation that might be enacted as a result of this legislation.

Chairman DAWSON. In your judgment, could you suggest any amendment or any language that we could use so as to make it specific that the bill is not intended in any way to impair the present responsibilities of GAO?

Mr. HEFFELFINGER. I think that language you just stated would certainly accomplish that.

Chairman DAWSON. Maybe that will be one of the amendments that GAO will bring in.

Mr. POLAND. Did Mr. Brasfield address the answer to your question in terms of accounting systems, practices, and procedures?

Mr. BRASFIELD. Mr. Chairman, if I may, I thought that I had said it this way. We did not think that this legislation changed the General Accounting Office function. We do believe that if you were going to legislate on function, it was desirable to review all three together, and by all three I mean the Secretary of the Treasury, the Comptroller General and the Bureau of the Budget, so there would not be the possibility of any overlap or duplication or inconsistency.

Chairman DAWSON. In the light of the proposed legislation, I want to say that this subcommittee is open to suggestions from the departments named in order to bring out the very best bill to accomplish the ends we are seeking, and we invite suggestions or suggested amendments from the different departments in order to accomplish that. It would be welcome in our hearings so we can bring out the best legislation.

Any other questions?

Thank you very much, sir. We will take the liberty of recalling you should we need to do so.

Mr. HEFFELFINGER. We will await your call.

ChairmanDAWSON. We will adjourn until tomorrow morning.

(Thereupon the subcommittee adjourned at 1:20 p. m. until Tuesday, May 22, 1956.)

BUDGET AND ACCOUNTING

TUESDAY, MAY 22, 1956

House of Representatives,
Executive and Legislative Reorganization
Subcommittee of the Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10:20 a. m., in room 1501, New House Office Building, Representative William M. Dawson (chairman) presiding.

Present: Representatives Dawson (chairman), Jones Brown, and Mrs. Hardin.

Also present: Representative Lipscomb; Elmer W. Henderson, subcommittee counsel; Orville S. Poland, general counsel; William Pincus, associate general counsel; and Ann E. McLachlan, clerk of the subcommittee staff.

Chairman Dawson. Will the subcommittee please come to order?

We will resume our hearings on H. R. 9402.

This is a bill to improve governmental budgeting, accounting methods, and procedures, and for other purposes.

We have been getting all kinds of mail from those who believe in the Hoover report, the report of the Hoover Commission.

But as these bills are brought up to implement the Hoover Commission's report, we find objections coming from various quarters, and it seems that everybody is for the Hoover Commission report until it affects them.

When it affects them and changes their old order of doing things, then they are no longer for it. They want a lot of changes in it.

I'm sorry Congressman Brown isn't here, who was the author of the bill that created the first Hoover Commission, and who has been a member of both Commissions.

In his absence, we will begin, and we will start off with Mr. Rappaport, Assistant Director of the Bureau of the Budget.

STATEMENT OF PERCY RAPPAPORT, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET; ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING GROUP, BUREAU OF THE BUDGET

Mr. Rappaport. Mr. Chairman, I have a paper here that I would like to read for the record.

Chairman Dawson. Certainly.

Will you introduce yourself?

Mr. Rappaport. My name is Percy Rappaport, Assistant Director of the Bureau of the Budget.

Chairman DAWSON. The gentleman with you is?

Mr. RAPPAPORT. Mr. William Armstrong, of the Accounting Staff, Bureau of the Budget.

Chairman DAWSON. Thank you.

Mr. RAPPAPORT. Mr. Chairman, and members of the committee, I appreciate the opportunity to appear before your committee to state the views of the Bureau of the Budget concerning the Hoover Commission budget and accounting recommendations and related legislation.

As a matter of background, the Bureau of the Budget on February 20, 1956, furnished the House Committee on Government Operations a résumé of our position at that time on recommendations contained in the Hoover Commission Budget and Accounting Report.

Similarly, the committee was furnished, on March 19, 1956, with reports covering H. R. 7209 and H. R. 7338, bills to improve accounting methods, and H. R. 8236, a bill to provide for comprehensive reports by the Bureau of the Budget. These were followed, on March 23, 1956, by a statement of our views on H. R. 9402, a bill to improve governmental budget and accounting methods and procedures.

Since the preparation of these reports, there was released on April 29, 1956, an exchange of correspondence with the President on this subject, followed by a message to the Congress from the President on May 10, 1956.

Both of these releases express appreciation to Mr. Hoover and his distinguished associates for the important contribution the budget and accounting report makes toward the improvement of financial management in Government, and indicate executive branch agreement with the Hoover Commission objectives.

They make it clear that the executive branch is moving toward adoption of many of the recommendations, and is prepared to cooperate closely with the Congress on those proposals that are of mutual concern to the legislative and executive branches.

In view of these previous reports and statements, we will take this opportunity to summarize our current position on the several recommendations, first covering those reflected in the legislation currently before your committee.

LEGISLATION

Since H. R. 9402 covers the majority of the Hoover Commission proposals, I would like to begin with a statement of our views on the several sections of that bill.

Section 1 (a): Hoover Commission recommendation No. 22 is reflected in section 1 (a) of H. R. 9402. We previously suggested that these provisions not be enacted because we feel that this legislative requirement for comprehensive reports by the Bureau of the Budget would be untimely. The objective is desirable, but further developmental work on agency accounting systems and an integrated financial reporting system for the Government as a whole is necessary before appropriate decisions can be made as to needs to be met and the placement of responsibility for this function.

Sections 1 (b) and 2 (b): Similarly, we do not favor that portion of section 1 (b) of H. H. 9402 that enacts Hoover Commission recommendation No. 2 and would require performance reports from the agencies to the Bureau of the Budget for consolidation and submission to the President.

We agree with the objective of this proposal but feel that adequate authority for this procedure now exists. On the basis of past experience, the need here is to determine the best of several alternative approaches toward this objective and to provide sufficient staff in the Bureau of the Budget to insure early accomplishment of the objective.

The remainder of section 1 (b) and section 2 (b) would require governmentwide use of costs for management and budgetary purposes and the development of accrual accounting systems that would incorporate appropriate property accounting practices.

These subsections would enact Hoover Commission recommendation Nos. 3, 4, 6, 14, and 16. We are in full agreement with these proposals, recognizing that costs are an important element in effective control of Government finances.

These represent major objectives of the joint accounting program, under which developmental work has been proceeding on an evolutionary basis.

Currently, we are placing greater emphasis on this work, taking steps to stimulate the development of accrual accounting systems in the agencies, and proposing to the Appropriations Committee to incorporate cost information into the budget process whenever such data are available in an agency.

Our previous report on H. R. 9402 suggested amendments to section 1 (b) so that the use of costs in budgeting would be required only when the agency accounting systems produce the necessary data; and to eliminate the provision which requires a review of organizational unit performance in the budget document.

With these amendments, the Bureau of the Budget would support the enactment of these provisions.

In this connection, Hoover Commission recommendation No. 7 suggests that appropriations be made in terms of accrued expenditures rather than on the obligation basis.

This constitutes an extension of the accrual principle involved in the proposals discussed immediately above. While recommendation No. 7 is not included in H. R. 9402, we believe that this change in the appropriation process would strengthen budget controls and assist in improving financial management.

There are, however, differences of opinion as to the advantage and disadvantages of accrued expenditure appropriations and as to the methods that would be needed for the financing and control of obligations in advance of appropriations, primarily for long lead-time programs.

For this reason we urge that appropriations on an accrued expenditure basis be adopted as an objective, recognizing that it will necessarily need to be implemented on an evolutionary basis over a considerable period of time.

With a legislative authorization to proceed in this direction, we believe that progress toward the ultimate objective could be made more rapidly.

Section 1 (c). This subsection, which reflects one part of Hoover Commission recommendation No. 1, would require the placement of Bureau of the Budget staff in the principal agencies on a rotating basis.

We recommend against enactment of this subsection on the basis of the administrative difficulties that would be involved in meeting the specified requirements, and in recognition of the fact that such an arrangement might constitute a disruptive influence on established Bureau-agency relationships.

In contrast, the remainder of recommendation No. 1—which suggests strengthening the management and budgetary functions of the Bureau of the Budget—is of major importance because it has a direct bearing on the ability of the Bureau to effectively implement many of the recommendations in the budget and accounting and other reports of the Hoover Commission.

This is not covered by H. R. 9402, but we have recently taken action along the lines of the Commission's proposal by submitting a supplemental appropriation request to the Congress which would be used to expand the Bureau's activities.

Section 2 (a): This covers recommendation No. 5 of the Hoover Commission which calls for further synchronization of organization, budget, and accounting classifications. This is highly desirable—a goal toward which we have made a good deal of progress in recent years. As we have previously indicated, this legislation is unnecessary, but if it were considered desirable, the Bureau of the Budget would have no objection to such a provision.

Section 2 (c): To provide increased impetus on accounting reforms, the Hoover Commission urged the executive branch to assume more leadership in this improvement effort by establishing a staff Office of Accounting in the Bureau of the Budget and by establishing comptroller positions in the principal agencies—with the provision that the Office of Accounting would assist the agencies in strengthening their financial organizations.

This was proposed in the Commission's recommendations Nos. 10, 11, and 12.

Action toward implementation has already been initiated by the Bureau of the Budget—the small accounting group staff that previously acted as the Bureau's representatives in the joint accounting program has been placed under the jurisdiction of an assistant director.

This official has been given responsibility for development of leadership in accounting improvement in the executive branch. On the use of agency comptrollers, we feel we should avoid the imposition of such a fixed pattern of organization in the agencies. Rather, we intend to emphasize the need for effective coordination of the budget and accounting functions through use of organization facilities most appropriate to the individual agencies.

In both of these proposals, we understand that the purpose of the Hoover Commission was to propose these organizational arrangements for consideration of the heads of the respective agencies, rather than to suggest the passage of legislation on the matter.

Accordingly, and in view of the action underway, we feel the proposed legislation would be undesirable.

Section 3: Hoover Commission recommendation No. 13, suggesting simplification of agency allotment structures, would be implemented by this section of the bill. We plan to continue and strengthen our efforts toward the objective of this proposal and would have no objection to legislation establishing congressional intent on this subject.

Section 4: This section of the bill, providing for agency use of a single account for liquidation of obligations, covers Hoover Commission recommendation No. 17.

Your committee has recently held hearings on separate legislation, designated as H. R. 9593, which we believe will more effectively carry out the objectives of this recommendation and also implement recommendation No. 18—which suggested settlement of valid claims in the agencies rather than the General Accounting Office. In view of this, section 4 of H. R. 9402 would be unnecessary.

Section 5: The last section of this bill would implement Hoover Commission recommendations Nos. 20 and 25. These call for joint General Accounting Office-Bureau of the Budget studies of duplicate central accounts and internal auditing in the Government. Continuing attention has been and will be given to these subjects under the joint accounting program and we therefore feel this section is also unnecessary.

H. R. 7209 and H. R. 7338: These two bills contain the same provisions as secion 2 (c) of H. R. 9402. Our views on these bills have been covered in relation to that section.

H. R. 8236——

Mr. Brown. Just a minute. May I ask a question on that point?

The bill which you referred to is H. R. 9593, on which we held hearings in this committee, that is the bill in which the Department of Defense was given an exemption to the procedures under that act.

Mr. Rappaport. I don't recall that.

Mr. Jones. An amendment prevailed in the committee to permit the restoration of funds or unexpended balances.

In recent disclosures from the Comptroller General would suggest that that amendment then was not very wise and very prudent in its application. Isn't that true, sir?

Mr. Rappaport. I have no knowledge of what the Comptroller General reported in that connection.

Mr. Jones. Have you read the paper?

Mr. Rappaport. I do, but don't I am qualified to express an opinion on what I read in the paper.

Mr. Jones. I see. Thank you, sir. That is all the questions I have.

The reason I propound those questions to you, Mr. Rappaport, is that you make reference to the bill and I thought you had some knowledge of the amendment that was carried in the committee which made certain exemptions.

Mr. Rappaport. Mr. Armstrong would like to comment on that.

Mr. Jones. Yes, sir.

Mr. Armstrong. The bill as originally considered provided, in the case of appropriations, that not later than 90 days after the end of the year the unobligated balance would be written off and an amount equal to the unliquidated obligations would be set up in a consolidated account for prior years. The original bill contemplated too that if that amount was insufficient—if the payments turned out to be greater than the obligations outstanding—then the agency would use current year appropriations to pay the difference. I think the purpose of the amendment was that if agencies did not have sufficient money in a current year appropriation, they would be allowed to restore from the amount that was previously written off the equivalent of the excess of the payments to be made over the unliquidated obligations. I don't

believe that that is a serious defect in the bill. I don't think it hurts it too much.

Mr. JONES. I think there will be some differences of opinion on that point.

Chairman DAWSON. Mr. Pincus?

Mr. PINCUS. Mr. Rappaport or Mr. Armstrong, pursuing Congressman Jones' inquiry, would H. R. 9593 as now written, with or without regard to the amendment, prevent the situation described by the Comptroller General in his testimony yesterday?

In other words, the overobligation of approximately $400 million which remain under the control of the Department of Defense?

Mr. ARMSTRONG. I am not familiar with yesterday's testimony. This $400 million was what, obligated?

Mr. PINCUS. Overobligated and kept under the control of the agency.

Mr. JONES. We will have a continuation of it as long as exceptions and exemptions.

Mr. RAPPAPORT. I haven't had an opportunity to review this situation.

Mr. JONES. I appreciate that. Since it was a subject of discussion before the committee I thought it appropriate at this time to comment on the action of the committee since you had brought into discussion the bill which I referred to.

Mr. RAPPAPORT. H. R. 8236: Similarly this bill contains provisions like those in section 1 (a) of H. R. 9402 and our views were given in discussing section 1 (a).

OTHER HOOVER COMMISSION RECOMMENDATIONS

The comments thus far reflect our views on the legislation before the subcommittee. Our position on other Commission recommendations may be summarized as follows:

Recommendation Nos. 8 and 9: These two proposals suggest that legislation for continuing programs that are not susceptible to ordinary budget controls be enacted for a limited term to permit periodic review in the Congress and the Bureau of the Budget. We have recognized the need for such reviews on a regular basis and will continue this practice, proposing legislative amendments whenever considered desirable in the light of current budget policy.

Recommendation No. 15: This proposal suggested that revolving funds should be reviewed to determine their value to management. This has been done as part of the budget process and will be continued.

Recommendation No. 19: The Commission suggested that the Comptroller General be given authority to relieve accountable officers except in cases of fraud or negligence. As previously reported, legislation on this subject was enacted soon after release of this Commission report.

This legislation varies somewhat from the recommendation but should, for all practical purposes, produce the desired results. We intend to observe operations under the enacted legislation to insure attainment of the desired objective on a practical basis.

Recommendation No. 21: This called for improvement and modernization of Treasury's central reports. We completely support this pro-

posal and have been working toward this goal under the joint accounting program. This will continue as a major objective of that program.

We appreciate this opportunity to express our views on the significant proposals resulting from the Hoover Commission study of governmental budgeting and accounting. This has been of considerable assistance to the executive branch in reviewing the complex practices involved.

The Commission's recommendations and the proposed legislation support many of the objectives of the joint accounting program, and we feel that they will prove valuable in bringing about significant improvements in the financial management of the Government's affairs.

Thank you.

Chairman DAWSON. Mr. Jones, any questions?

Mr. JONES. No questions.

Chairman DAWSON. Mr. Lipscomb? Pardon me, Mr. Brown.

Mr. BROWN. No, go ahead, Mr. Lipscomb, first, please.

Mr. LIPSCOMB. Mr. Rappaport, first can you clarify what you are for in H. R. 9402?

Mr. RAPPAPORT. I could state it in these brief terms, perhaps, that we are especially interested in three things: 1, accrual accounting; 2, cost-based budgeting; and 3, appropriations on accrued-expenditure basis.

These are the three things that we are primarily interested in and we think they are the important substance of the Hoover Commission report.

Mr. LIPSCOMB. If you don't need legislation on some of these other things to put a little more emphasis on budget and accounting, why do you need legislation on cost-based budgeting and accrual accounting and accrual budgeting?

Mr. RAPPAPORT. We think that under the present procedure these features are not called for and, in order to accomplish this objective, we would favor legislation.

Mr. LIPSCOMB. But do you need legislation to do that?

Mr. RAPPAPORT. I am not technically qualified to answer.

Mr. LIPSCOMB. You have testified that you don't need these other items.

Mr. RAPPAPORT. It is our opinion that we don't need these.

Mr. LIPSCOMB. Can you determine why your opinion is that you need legislation on some of the others?

Mr. RAPPAPORT. In some cases the legislation already exists. If we had a framework for these particular procedures that I just referred to, then I think in respect of the other instances, many of the suggestions would develop in the normal course of events.

Mr. LIPSCOMB. Do you need legislation to put cost-based budgeting into effect?

Mr. RAPPAPORT. I don't think we really need it in the absolute sense but it would certainly speed up the objective that the Hoover Commission is representing here.

Mr. LIPSCOMB. Didn't the first Hoover Commission recommend cost-based budgeting?

Mr. RAPPAPORT. As far as I know it was just the performance-based budgeting.

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Mr. LIPSCOMB. Would that necessarily bring about cost-based accounting?

Mr. RAPPAPORT. I don't think so.

Mr. LIPSCOMB. You can adequately submit a performance or program budget to Congress without having a cost-based budget and accrual accounting?

Mr. RAPPAPORT. I would be of that opinion.

Mr. LIPSCOMB. How would you get a performance budget on that basis?

Mr. RAPPAPORT. It wouldn't be meaningful but it could be done.

Mr. LIPSCOMB. In other words it wouldn't mean a thing——

Mr. RAPPAPORT. I agree with that, sir.

Mr. LIPSCOMB. To get an adequate program or performance budget you would need cost-based accounting and accrual accounting?

Mr. RAPPAPORT. Yes, sir; that would be my opinion.

Mr. LIPSCOMB. So when the first Hoover Commission made the recommendations they were talking about a cost-based budget?

Mr. RAPPAPORT. I think that was probably implied.

Mr. LIPSCOMB. And it has not been done to this point?

Mr. RAPPAPORT. It has in certain agencies but it has not been carried through to its ultimate conclusion.

Mr. LIPSCOMB. What you are telling the committee this morning is that the reason you want certain portions of this legislation is to get a statement of policy from Congress?

Mr. RAPPAPORT. That would be very important as an objective.

Mr. LIPSCOMB. You are not willing to start it without a statement of policy from Congress?

Mr. RAPPAPORT. We have already done that. The joint accounting program has been working in that direction, but this would speed it up, at least that is my opinion.

Mr. LIPSCOMB. How many people on your staff do you have or have you had rather working on the joint program to improve accounting?

Mr. RAPPAPORT. We have an accounting staff of eight people.

Mr. LIPSCOMB. On the joint program to improve accounting?

Mr. RAPPAPORT. I would say about four were working on the joint program.

Mr. LIPSCOMB. And I believe yesterday the Department of the Treasury testified they had——

Mr. RAPPAPORT. Excuse me.

Mr. LIPSCOMB. I believe the Treasury Department testified yesterday that they had 8 or 9.

Mr. RAPPAPORT. I did not hear that testimony. I wasn't here yesterday.

Mr. LIPSCOMB. How many agencies are you working with to get this joint program set up?

Mr. RAPPAPORT. There is still the General Accounting Office that is working on this program. They have contributed many more people than either the Treasury or we.

Mr. LIPSCOMB. Yes, I realize that.

I mean you are putting a lot of emphasis on the joint program to improve accounting, and to say the kindest thing we can, it is very insufficient and inadequate at the present time.

Mr. RAPPAPORT. In that connection I might add—and I think you will find it mentioned in the statement I just read—that we are hope-

ful of augmenting our staff so that greater progress in the joint program can be achieved.

Mr. LIPSCOMB. Now in section 1 (a) of your statement you say that comprehensive reports by the Bureau of the Budget would be untimely.

Mr. RAPPAPORT. We think it would be untimely until the agencies and departments develop cost systems.

Mr. LIPSCOMB. Isn't that true with a great many of these things, that by writing the law we are not going to get them done, that you have to work toward the goal of comprehensive reports?

Mr. RAPPAPORT. That's right.

Mr. LIPSCOMB. And therefore if you are for a policy declaration by Congress, we are telling you that you should work toward some comprehensive reports by the Bureau of the Budget. So what do you have against us writing into the legislation that Congress desires seeing some comprehensive reports?

Mr. RAPPAPORT. We say the objective is desirable.

Mr. LIPSCOMB. Then you say, "but further developmental work on agency accounting systems and an integrated financial reporting system for the Government as a whole is necessary. * * *"

We recognize that in this legislation. So what we would be doing in this legislation would be telling you that we should establish more people in this division to get comprehensive reports. So wouldn't you say that section 1 (a) is desirable as an expression of intent of Congress?

Mr. RAPPAPORT. Well, we think the objective is absolutely desirable.

Mr. LIPSCOMB. So you would have no objection if something like that was included in the bill.

Mr. RAPPAPORT. We couldn't object to it; no, sir.

Mr. LIPSCOMB. Are you at the present time doing anything to implement the recommendation to obtain adequate and comprehensive reports so that you can adequately prepare the budget and send information to Congress?

Mr. RAPPAPORT. Yes, sir.

Mr. LIPSCOMB. In what respect?

Mr. RAPPAPORT. Those agencies which are on accrual accounting—that is certain sections of agencies—have been supplying the Bureau with reports compiled on that basis.

Mr. LIPSCOMB. How many agencies are doing that?

Mr. ARMSTRONG. In the past year we received cost-type budgets as part of the budget justifications from 14 agencies representing 37 appropriations. That doesn't cover all of those 14 agencies, but it does cover certain appropriations within such agencies so that in addition to the regular budget on the obligation basis we have, in the justification material, budgets on a cost basis. We would like to move one step further and get those cost-based budgets in the budget document.

At present, it looks like there will be 63 additional appropriations this year where the agencies will be able to prepare budgets on the cost basis.

Mr. LIPSCOMB. What is the total amount of annual appropriations in those 14 agencies?

Mr. ARMSTRONG. I don't have those amounts here, but I can tell you the agencies involved.

Mr. LIPSCOMB. By dollar volume they are very small, is that true?

Mr. ARMSTRONG. Let's see. There is the Atomic Energy Commission for one, the construction appropriation. The maintenance and operation appropriation is on a cost basis in the budget document now. That was put on the cost basis several years ago.

Mr. LIPSCOMB. Couldn't you tell the committee that there are only 2 or 4 agencies that are working on this plan now, the Bureau of the Mint, the Atomic Energy Commission, and 1 or 2 others perhaps?

Mr. ARMSTRONG. There are four of the regular appropriations in the budget document on the cost basis, that is the AEC maintenance and operation appropriation, one appropriation for the Government Printing Office, the Bureau of the Mint, and the Canal Zone Government. Those are the four that are printed on a cost basis and we would like to get these others on the same basis.

Mr. LIPSCOMB. You object also to sections 1 (b) and 2 (b). You again agree with the objectives of the proposal but state that you have adequate authority at the present time.

You say:

> On the basis of past experience the need here is to determine the best of several alternative approaches toward this objective and to provide sufficient staff in the Bureau of the Budget to insure early accomplishment of the objective.

What are your plans?

Mr. ARMSTRONG. Several alternatives have to be considered there, Mr. Lipscomb. As you may know several years ago the Bureau got management reports from the various agencies. It felt that those probably were not too satisfactory. We have been thinking that it might be more effective if this reporting procedure were geared in with the budget process.

In other words when the agencies come in with their estimates, they should supply more information on performance supporting those estimates. We think that might be a more effective way to do it and then from that information could be pulled together the highlights for information on the Government as a whole. There are some other alternatives. We agree with the objective, but we want to feel our way to see what is the best way to do it.

Mr. LIPSCOMB. Would you explain to the committee what you mean by performance report?

Mr. ARMSTRONG. Performance reporting means significant and meaningful classifications of the work that an agency does, with such supporting data as may be necessary, and the cost of doing that work. That is where costs come in. Obligations don't give you the information to determine performance. In other words if you do a piece of work you should know what it costs, so you can be in a better position to know whether the Government is getting value for the money it expends.

Mr. LIPSCOMB. Why haven't you done all of this——

Mr. JONES. Will the gentleman yield for a further question for clarification of your answer?

Mr. LIPSCOMB. Yes.

Mr. JONES. What procedures does the Bureau of the Budget make to examine the activities of an agency to determine performance?

Is it just an examination of the record submitted by the agency or is it actual participation of the examination of the physical properties as well as the examination of reports?

Mr. ARMSTRONG. That varies. It includes many things. It might include all of those things. It might include an inspection of the agency on the site, to see how it is operating. It might be a review of reports. And where the financial information is set forth in terms of costs, it would include a review of reports relating costs to the work done.

Mr. JONES. And how close is the scrutiny placed upon the Department of Defense in the examination of their performance and record?

Mr. ARMSTRONG. I don't know. It is our military division that handles defense. I don't know that I can speak too authoritatively on that.

Mr. JONES. That is all. Thank you, sir.

Mr. LIPSCOMB. As we discussed before, in 1949 the Hoover Commission recommended the performance budget that you are talking about. Why is it that from 1949 to the present time more activity or more accomplishments have not been made in this field if you are for the objective?

Mr. ARMSTRONG. Well, it takes a long, long time to go through a transition such as this and it seems to me that considerable progress has been made in the last few years. A great deal of progress has been made. If you look back several years to the first Hoover Commission, and to the time the joint accounting program was established, I think all of the emphasis was put on accounting mainly from the obligation point of view. There were certain exceptions of course. One of the major objectives was to stay within the limit of the funds appropriated by Congress. That meant recording the orders you let and contracts and so forth. There also was little emphasis placed on cost accounting. There was quite a bit of accounting done centrally in the Treasury Department and in the General Accounting Office.

All of that central paper mill has been pretty well cleaned out and the agencies have been put in a position where they can go ahead and develop accounting to meet their own needs. And agencies I think on the whole have made pretty good progress.

There is a long way still to go. We hope we can give some more push to this effort so that progress will be speeded up.

Mr. LIPSCOMB. You indicate in your statement that the bill should be amended so that the use of costs in budgeting would be required only when the agency accounting system produced the necessary data. By your past experience how long do you think this will take?

Mr. ARMSTRONG. Well, that would be pretty difficult to even guess.

Mr. BROWN. That is called the $100,000 question. That is above the $64,000 question.

Mr. ARMSTRONG. That's right.

Mr. LIPSCOMB. Do you feel that legislation such as that before this committee could help the Bureau of the Budget indicate to the agencies and departments of Government that Congress is interested in getting adequate figures to justify the budget that they are voting on for the people?

Mr. ARMSTRONG. Very definitely. I think legislation on this would be the greatest impetus to this work that we could have. If the framework were laid out, then I think progress would move ahead.

Mr. LIPSCOMB. Mr. Rappaport indicated in his statement that you recommend that recommendation No. 7 of the Hoover Commission

report, which has to do with an accrued budget, be amended into this bill, if the committee saw fit. How can you get an accrued budget before you get the cost system?

Mr. ARMSTRONG. If that were set forth in legislation as an objective, agencies could work toward that objective, just as rapidly as possible. You can't put all agencies of the Government on this basis on any given day. It is a transitional proposition over a considerable period of time.

Mr. LIPSCOMB. As I understand the testimony, you have no objections to 1 (b) or 2 (b) in the bill, with perhaps the simple amendment that was suggested?

Mr. ARMSTRONG. Yes, that amendment applies to three subsections, 210 (a), (c), and (d). We think the words "as soon as practicable" ought to be in there because section 2 (b) says, as soon as practicable agencies should maintain their accounts on the accrual basis. Until they are on the accrual basis you cannot have cost-based budgets.

Mr. LIPSCOMB. On section 1 (c), I believe that at least I recognize some of the arguments as being valid against the placement of people in the agencies. What do you mean by "it would constitute a disruptive influence on established Bureau-agency relationships"?

Mr. RAPPAPORT. The agencies and the Bureau are now working on a cooperative basis and by assigning people to an agency we could very well have clashes of personality which might be harmful. In addition to the disruptive factor, we would also find ourselves in a position where we would have to have a tremendous increase in the Bureau staff in order to cover the area that is indicated here. I personally think that there is a third factor. That is this, if a Bureau examiner is located in an agency on a permanent basis or to have the extent indicated here, he could very often have lost his objective approach to many problems that would come up.

Mr. LIPSCOMB. The bill specifically states that he should be rotated every 2 years.

Mr. RAPPAPORT. Yes; but 2 years is a long time.

Mr. LIPSCOMB. How does anyone in the Bureau of the Budget ever get familiar with an agency in a short period of time, and how in the short period of time that you have does the Bureau ever get familiar enough to know exactly what is going on in that department?

Mr. RAPPAPORT. They don't know precisely what is going on, but they know generally, because they are living with the agency problems constantly.

Examiners are assigned to the various agencies and they know all the problems that exist in these agencies. They are studying them constantly and they are reviewing and estimating the dollar effect.

Mr. LIPSCOMB. How long do you leave an examiner with a specific agency at the present time?

Mr. RAPPAPORT. An examiner would be assigned to an agency for 2 to 5 years and in some cases 10 to 15.

Mr. LIPSCOMB. Don't you run into the same difficulty that they become so friendly and know each other so well so they don't have an objective viewpoint on that agency?

Mr. RAPPAPORT. There is that danger. But I think that is a lesser danger than exists under the proposed bill.

Mr. LIPSCOMB. Why?

Mr. RAPPAPORT. I think by living with an agency continuously as a sort of a guest one's viewpoint could very often become distorted to a greater extent than is the case when visits are made intermittently.

Mr. BROWN. What is the difference between a representative of the Budget Bureau or an examiner living in somebody's house as a guest?

Mr. RAPPAPORT. We are talking about an examiner who is a representative of the Bureau.

Mr. BROWN. You say you don't want these budget representatives in the Bureau because they might become involved, and so forth and so on, and you say the same danger exists with an examiner. What is the difference between the two of them living in the agencies' houses, as you call them. Aren't they subject to the same influence?

Mr. RAPPAPORT. A greater degree of independence is achieved if you just call on these people from time to time.

Mr. BROWN. You say you call for several years, that is a long visit. You say your examiners stay several years.

Mr. RAPPAPORT. They call on them on a spasmodic basis. They don't stay on there indefinitely. They may come in for a review that might take a day or a week or a month and then step out again.

Mr. BROWN. Let's take the Defense Department we were talking about a while ago, how long do your examiners stay there spasomodically? How long between spasms?

Mr. RAPPAPORT. I don't know how long our examiners stay there.

Mr. ARMSTRONG. That varies.

Mr. RAPPAPORT. I can't answer your question specifically. I don't know of my own knowledge.

Mr. BROWN. Just take a guess. Everything else we get up here is based on a guess. You might as well do a little of that. How long does one of those examiners stay?

Mr. RAPPAPORT. How long is he assigned?

Mr. BROWN. You say he checks spasmodically. How long are these spasmodic visits?

Mr. RAPPAPORT. I said that the examiners are assigned to an agency or to a bureau for several years.

Mr. BROWN. Yes, and then you said he just——

Mr. RAPPAPORT. Then he visits this agency during that several years on an intermittent basis.

Mr. BROWN. How long are these periods, these intermittent bases? How long does an examiner, or the examiners that are examining the Defense Department, stay in the Defense Department and check it? They just don't run over to the Pentagon once every 3 months or something, do they?

Mr. RAPPAPORT. No.

Mr. BROWN. Are they there every day?

Mr. RAPPAPORT. I don't think they are there every day but they do call very frequently.

Mr. BROWN. They miss Saturdays and Sundays. Nobody works but Congressmen on Saturdays and Sundays. Are they there week in and week out, or what?

Mr. RAPPAPORT. They are assigned to the agency on a week-in and week-out basis.

Mr. BROWN. What do they do when they are not visiting the agency?

Mr. RAPPAPORT. They have a tremendous amount of study to do as a result of reports and information that come to them. That can be

done in their own office and does not have to be done in the Pentagon.

Mr. BROWN. I have never been able to understand how the Budget Bureau can actually know what amounts should be put in the budget figure, or in the budget sent to the Congress, and especially so if they just have examiners go out spasmodically.

I have been in Government for a long time and I have found that it is not unusual for Government agencies to ask for a lot more than they need, thinking, "Well, if they cut us, we will still be all right." I have had heads of agencies say to me, when the cut has been 10 percent or 20 percent, "Well, we still have 10 percent more than we expected." What the Hoover Commission has been trying to do is to get at this situation where, through the Budget Bureau, the Congress may be better informed as to what should be appropriated out of the people's money to run these agencies; what is actually necessary, and what is not necessary, to eliminate as much waste and extravagance as we can, and get as much efficiency as possible.

I am not sure that you went too far in the Budget Bureau—and I don't mean you personally, because others have been there—in putting into effect some of the recommendations and suggestions made by the first Hoover Commission. You gave lip service to the matter, as I see it.

I think there has been more attention given to some of the reforms recommended by the Hoover Commission this time.

But I think what Mr. Lipscomb, if I can read his mind, wants Congress to do, is to not depend upon the will of some individual budget director or some individual administration, but, instead, to write a policy and say, "Here is what we expect you to do and want you to do."

You say you want to do these things that are spelled out here, but that it is unnecesary to write them into law.

What on earth is wrong with backstopping you and giving you greater authority, greater impetus, and greater right to do what you want to do, by passing a law?

Mr. RAPPAPORT. In the case of the recommendation which is a very specific recommendation, an examiner is to be assigned to an agency for 2 years on a rotating basis.

Mr. BROWN. I am not quarreling with you on that. Mr. Lipscomb, I apologize again. In a lot of things you say "untimely," " authority now exists," "we agree, but unnecessary," "unneeded," "all right, but being done now." That is what I quarrel with.

Mr. RAPPAPORT. In my humble opinion, I don't think we often accomplish the objective that we are after by establishing a strict procedure. I think when we are dealing with professional people, such as we have in the Bureau of the Budget, we should give them a certain amount of flexibility in certain areas.

Mr. BROWN. That's right. But we have also had the experience that when a commission like the Hoover Commission which is an arm of the Congress, or when a committee such as this, Mr. Chairman, has expressed in its reports the desire that certain things be done, too often these individuals will decide for themselves whether they ought to do them. And often it becomes necessary in the public interest—and after all the Congress does represent the people—to spell it out in law. Even then we have difficulty in getting them to

do what we say should be done, or what the Congress says should be done, and what the President approves by signing the law.

I just can't understand the attitude that is taken on this thing: "Oh, this is fine, this is all right, but we are already doing it and there is no necessity to make it permanent law."

Neither can I understand why many of the administrative orders issued by the President to do certain things recommended by the Hoover Commission seemingly have not been done rapidly, or have met with the dragging of feet in a lot of the agencies in the Government.

Mr. RAPPAPORT. Of course you know when you are speaking of rapidity, you are speaking of a tremendous institution here and things are not done overnight. It just takes time.

Mr. BROWN. But if you are going to walk a mile you always take the first step.

Mr. RAPPAPORT. That is very true.

Mr. BROWN. I beg your pardon for jumping.

Mr. LIPSCOMB. It is perfectly all right. Going back to Mr. Brown's question, how many experts do you have working, for example, with the Department of Defense?

Mr. BROWN. I never got that answer.

Mr. RAPPAPORT. I do not have the figure in mind.

Mr. BROWN. Is it true that the principal function the examiners have is to rely upon the reports coming over to the Bureau of the Budget from the Department of Defense and review them and turn them over.

Mr. RAPPAPORT. They review them and evaluate them. In the case of programs it becomes possible to price them out. By doing that you can get a very close check on what a particular agency is requesting in the way of budget appropriations.

Mr. BROWN. How can they price them out without adequate internal costs and performance records?

Mr. RAPPAPORT. Well, there is a great deal of information available in the various agencies. This information may not be integrated perhaps but it is useful information and can be applied to arrive at the objective.

Mr. BROWN. Are you familiar with the General Accounting Office report on the examination of the Department of Defense certification under section 1311?

Mr. RAPPAPORT. No, sir.

Mr. BROWN. That came up earlier in the testimony in regard to one item, the $400 million military defense aid appropriation. It says—perhaps, Mr. Chairman, I will read this into the record because it came up earlier:

> No. 1 of that report says at least $400 million of military aid appropriations overstated at June 30, 1954, and retained in violation of the Mutual Security Act of 1954, were still being retained at June 30, 1955.

Would that be of any concern to the Bureau of the Budget in their programing for 1957–58?

Mr. RAPPAPORT. It certainly would be.

Mr. BROWN. Did the Bureau of the Budget know about that?

Mr. RAPPAPORT. I can't answer that of my own knowledge.

Mr. BROWN. For instance, another item which is of concern, in my estimation, to the Bureau of the Budget—and one of the reasons for the bill—is No. 2 of this report. It says:

The records and documents supporting unliquidated obligations balances are not in such form as to facilitate audit and reconciliation.

No. 3 is:

General trial balances were not run by the Departments' subbalances on individual documents and reconciled to control accounts. In those instances during the examination where it was possible to try and reconcile the documents to control accounts, the control accounts were found to be overstated.

The Bureau of the Budget, without adequate help in the way of emphasis by Congress, cannot properly do their job of programing, as I see it. Wouldn't this type of legislation showing the intent of Congress, in regard to budget and accounting, be a worthwhile thing to put into the statutes in order to give you more strength in the Bureau of the Budget to do the job that the executive branch feels should be done, I hope?

Mr. RAPPAPORT. After considerable study on the part of the Bureau officials, the views that were expressed in this paper seem to them to meet the needs of the Bureau.

There could be a difference of opinion as to whether the needs could be achieved quicker and more effectively but what I stated here was the considered opinion of the Bureau that it was not really necessary.

Mr. BROWN. Isn't it a fact that the Bureau of the Budget wants to do more, and knows that they should do more, but they are understaffed and need more resources?

Mr. RAPPAPORT. The Bureau of the Budget could use more resources, but it is a question of judgment as to the extent of the resources that are needed and I don't think that you could dump a thousand people into the Bureau of the Budget tomorrow and have any effective accomplishments.

Mr. BROWN. But you could dump more in?

Mr. RAPPAPORT. You could always use more people in this Government.

Mr. BROWN. And most agencies usually do.

Mr. RAPPAPORT. I don't think it is advisable to add to staff unless we are completely satisfied that they can perform effectively.

The organization that the Bureau has at this time is performing effectively within the scope of its present plans, but if it goes beyond these present plans it would have to augment the staff. There again I would say it should be done on a built-up basis and not by taking a big plunge.

Mr. LIPSCOMB. This bill does not say to do it in a big plunge. I believe Congress should recognize that it will have to be done on a continuous basis and that we will gradually go into this system.

Mr. RAPPAPORT. That is precisely our view.

Mr. LIPSCOMB. But I can't help but feel that over a period of years that this has been the objective all the time but yet it has been lagging.

I know that you have done a lot of work and it is a big enormous job, there isn't any doubt about it, but as Mr. Brundage said in his exchange of correspondence with the President, there has been a studied reduction in the staff of the Bureau of the Budget in the past 7 or 8 years in the face of very increased work.

But as I said, a minute ago, they are working effectively.

Mr. RAPPAPORT. That is true.

Mr. LIPSCOMB. It says:

Additional staff resources for the Bureau will be needed for the Bureau to put additional emphasis on its management function.

If Congress in its wisdom sets forth something that is in a bill such as the type before us, naturally Congress will have to face up to the fact that they will have to give you additional money, and it is the responsibility of the Bureau of the Budget to tell Congress what they need in the way of appropriations to do a good job which, in many people's minds, has not been done up to the present time.

Certainly you can't do an adequate job if you are going to continue to lose people and become understaffed.

Mr. BROWN. I would like to get back to that $400 million item of the Defense Department that got lost. You say, of course, that you did not know about it.

Mr. RAPPAPORT. I personally did not know.

Mr. BROWN. I can understand that. You were not in a position to know. But I wonder if you could inform the committee whether there might be in the Bureau of the Budget somebody who did know about it. I mean in a position of responsibility?

Mr. RAPPAPORT. Mr. Schaub, the head of the military division, could give you a proper and adequate explanation.

Mr. BROWN. Could you find out and let us know? Send us a notation on it for inclusion in the record.

Mr. RAPPAPORT. Yes, sir.

(The material referred to follows:)

The information requested by Congressman Brown for inclusion in the record (p. 164 of the transcript of the hearing) is set forth below. This is an excerpt from a communication which the Bureau forwarded to the Senate Foreign Relations Committee on May 24, 1956, dealing with this and other matters.

"REPORTED OVERSTATEMENT OF JUNE 30, 1954, UNLIQUIDATED OBLIGATIONS

"A major premise of the 1954 interagency recommendations for improving military assistance financial systems was that the procedures then in use did not produce accurate fiscal records. Believing it infeasible to reconstruct and adjust all prior transactions, the General Accounting Office, the Department of Defense, the Foreign Operations Administration, and the Bureau of the Budget recommended striking a balance between military assistance deliveries and expenditures on the basis of the best available records and then converting to simpler, more effective accounting methods for the future. Legislative history would suggest Congress accepted both the premise and the recommendations by enacting section 110 of the Mutual Security Appropriation Act, 1955.

"Section 110, effective as of July 1, 1954, was enacted September 3, 1954. Section 1311 of the Supplemental Appropriation Act, 1955, applicable as of June 30, 1954, was enacted August 26, 1954. Implementing instructions for these interacting statutory provisions were not issued until much later in fiscal year 1955. It is the judgment of the Department of Defense that the retroactive application of these two provisions made it virtually impossible to reconstruct June 30, 1954, military assistance balances with complete accuracy.

"On September 26, 1955, the Acting Comptroller General reported to the Appropriations Committees that an examination of some military assistance records indicated certified June 30, 1954, unliquidated obligations carried forward to subsequent years were overstated by 'at least $400 million.' Since the Acting Comtroller General stated 'a complete audit requiring many thousands of man-hours would not be warranted,' the Department of Defense decided not to make another review of all June 30, 1954, military assistance fiscal records or to transfer funds from the military assistance accounts.

"Any further consideration of this matter should take these factors into account: First, past recognition by the legislative and executive branches that military assistance fiscal records prior to fiscal year 1955 are not susceptible of accurate analysis; second, the difficulties created by retroactive application of sections 110 and 1311 to a calculation of June 30, 1954, military assistance unliquidated obligations; third, the fact that section 1311 screening as of June 30, 1955, may have eliminated some June 30, 1954, unliquidated obligations carried forward into fiscal year 1955; fourth, the many administrative actions taken since June 30, 1954, which would be affected by a retroactive reduction in fund availability; and fifth, the fact that fiscal year 1956 appropriations and fiscal year 1957 appropriations requests have assumed the availability of prior certified balances and would, therefore, not be reduced by such an analysis."

Mr. BROWN. I would like to know if the Bureau of the Budget knew about it and, if so, what they did about it—took it off, notified Congress, or what?

Mr. RAPPAPORT. We will supply that information to you.

Mr. BROWN. Has the Bureau of the Budget in the past kept pretty good track of the Government inventories?

Mr. RAPPAPORT. I don't understand that question.

Mr. BROWN. Have you kept pretty good track of Government inventories? Have you known what the inventory of the Defense Department was?

Mr. RAPPAPORT. The Bureau of the Budget I don't think has the responsibility of keeping track of inventories all over the Government.

Mr. BROWN. I mean the information. Have you had any definite information on inventories? I think that question is rather direct, and just makes ordinary common sense from a business point of view. If you don't know what any Government agency has, how can you know what they need to be budgeted to buy more?

Mr. ARMSTRONG. We have been trying to encourage the setting up of accounting controls over property. Until the last few years that was one of the long-neglected areas in Government accounting. A considerable amount of progress has been made in bringing property under financial control and determining the quantities and the value of inventories. We need financial property accounting in order to have cost-based budgets.

Mr. BROWN. I am going to mention a picayune thing as an illustration. I recall the first Hoover Commission found in checking on 1 agency that they had enough carbon paper to run that agency for 148 years. It didn't amount to much, but it amounted in cost to all the taxes the farmers in my district paid in a couple of years to the Federal Government.

Now, if your Budget Bureau knew, which you did not at the time, that they had 148 years' supply of carbon paper on hand in that agency, wouldn't you be a little careful about how much more you put in the budget for the coming fiscal year to buy office supplies for that Department? See what I am driving at?

Mr. ARMSTRONG. Yes, that is one of the advantages of the cost-type budget. It brings in those resources, inventories and other things they have on hand.

Mr. BROWN. Certainly the Commission and this committee, and the Congress, is driving at getting some control over this, sir.

Mr. ARMSTRONG. Yes.

Mr. BROWN. Do you know what the overall cost basis inventory of the Defense Department is?

Mr. ARMSTRONG. I can't recall offhand. I think there are some figures on it. The Defense Department has done quite a bit of work in the last few years in bringing inventories under financial control.

Mr. BROWN. Yes, the Hoover Commission pointed that out rather strongly, and the Defense Department started on it lately, but I think you will find the inventory of the Defense Department is more than the inventory of private enterprise in the United States all put together, which is amazing, and a large and very dangerous thing. A lot of these items are obsolete perhaps, but unless you know something about the procurement practices and the amount of inventory on hand in these departments and agencies in Government in the Bureau of the Budget, I can't comprehend how you know they need these things when they ask for them, as represented by the appropriations they request.

Mr. RAPPAPORT. Certainly if we have the information as a part of the budget, that will be the place to start. In other words, that will give us an indication as to what they need and whether part of the inventory can be applied to next year's activities, and so forth.

Mr. BROWN. The fact of the matter is that Congress has appropriated money in recent years faster than they could spend it. I think you will agree with that. There has been a huge carryover. Do you know how much has been appropriated that has not been expended, that is carried over?

Mr. RAPPAPORT. Fifty billion.

Mr. BROWN. You are guessing.

Mr. RAPPAPORT. Yes; I would say 50 billion or more.

Mr. BROWN. I would suggest that you put someone in there to study that, because you will find it interesting. According to the figures I get, we have some $10 billion now in the Mutual Defense or Foreign Aid Fund, if you want to call it that, that have not been expended or obligated.

Don't you think when you find huge sums like that, which have already been appropriated to some agency or activity of Government, perhaps the Bureau of the Budget should look with a little more jaundiced eye on requests for new appropriations and say, "Boys, you better spend what you have already been appropriated first."

Doesn't that make good sense?

Mr. ARMSTRONG. Yes. We are suggesting that this recommendation 7 of the Hoover Commission be written into this bill. We think that will provide a better handle for dealing with this sort of thing.

Chairman DAWSON. Are you for the bill?

Mr. RAPPAPORT. Yes, sir, we are for the bill. With these minor suggestions that we have made.

Mr. BROWN. And these notations, that this is not necessary, and that is not necessary?

Chairman DAWSON. They have eliminated almost every section of it that they did not think was necessary.

Mr. RAPPAPORT. I think you will find when you study our remarks that the suggestions we have made for elimination are of minor consequence really.

Chairman DAWSON. You know what it reminds me of, Mr. Brown. You ask the witness the question: "Did the man pass your door?" He replies, "Congressman, I am glad you asked me that question. The answer is yes and no."

Mr. BROWN. I think these gentlemen are in a difficult spot. I want to be charitable. But the first Commission which the Congress named to do this study and work for it was and is interested in seeing to it that some of these things are corrected, and some other things done which can help give us a better government.

Now, we have encountered in many fields, in the past 6 years, or since 1949, a reluctance, to be as charitable as we can, on the part of many of the agencies of the Government to put into effect these reforms which both the Commission recommended and the Congress ordered, even by enacting laws.

The least we can do here, by legislative enactment, is to fix a policy, and state here is what we want you to do, and here is what should be done, as quickly as practicable.

You will recall, Mr. Chairman, this committee checked up on the cataloguing law, which was passed by Congress as a result of a first Hoover Commission recommendation, and we found there was a lot of dragging of feet in that situation, a process that could save a lot of money to the taxpayers of this country.

We have a responsibility to the public; and I can't understand for the life of me what is wrong with a bill like this, or how you can say it is not necessary, because you are already doing it. You may not be there long. We change budget directors faster than I change clothes. There have been a lot of them down there in my time and some other Budget Director may have an entirely different idea than you do unless there is a law that says this is the way you are to do it.

Mr. RAPPAPORT. I think we have said here that we think this is a very good law.

Mr. BROWN. Except that a lot of it is not necessary. Section so and so is not necessary. Section so and so is not advisable. I put the notes down here.

Mr. RAPPAPORT. I think you will find the exceptions which we have taken are not exceptions that would be significant in carrying out the objective that you just described a little while ago.

Mr. BROWN. Suppose we have a different idea? You would not be objecting to our passing the kind of law we think we ought to?

Mr. RAPPAPORT. That is your privilege, sir.

Mr. BROWN. That's all.

Mr. LIPSCOMB. Mr. Chairman, do you at the present time, Mr. Rappaport, have any field offices?

Mr. RAPPAPORT. No; they were discontinued several years ago.

Mr. LIPSCOMB. And in the foreign-aid program, which expends a considerable amount, do you have field trips?

Mr. RAPPAPORT. Yes, sir.

Mr. LIPSCOMB. To foreign countries?

Mr. RAPPAPORT. Yes, sir.

Mr. LIPSCOMB. To foreign countries?

Mr. RAPPAPORT. Yes.

Mr. LIPSCOMB. And those are made by examiners?

Mr. RAPPAPORT. Yes, sir.

Mr. LIPSCOMB. How many examiners do you have on that program.

Mr. RAPPAPORT. About 20 or 25.

Mr. LIPSCOMB. And how long do they spend on such a program?

Mr. RAPPAPORT. They are working on the program year round.

Mr. LIPSCOMB. Yes, sir, but overseas?

Mr. RAPPAPORT. They just make special trips for special purposes.

Mr. LIPSCOMB. In other words most of the information that you submit in the budget is a review and evaluation of the reports sent from the agency and department overseas?

Mr. RAPPAPORT. Yes, sir.

Mr. LIPSCOMB. And there is no adequate way at the present time that you could evaluate those as to actual costs or expenditures in the program?

Mr. RAPPAPORT. I think there are ways to evaluate them.

Mr. LIPSCOMB. But you are not doing them?

Mr. RAPPAPORT. I think we are. We are evaluating them. We may be doing it in a manner different from what you suggest but that is only a procedural matter. There are several ways the same thing can be done as you know.

At the present we are doing it in a certain way. You might prefer another way and the next fellow might prefer still another way but that does not mean that the way we are doing it is not sound and effective.

Mr. LIPSCOMB. Your office has been receiving reports from the General Accounting Office on aid to Pakistan and Iran and Egypt. Were you aware of the deficiencies that they pointed out in the program?

Mr. RAPPAPORT. I am not personally aware of that. That is not in my area.

Mr. LIPSCOMB. Do the GAO reports get complete evaluation?

Mr. RAPPAPORT. Yes, indeed.

Mr. LIPSCOMB. They pointed up things that would have had a great bearing I believe in the programing of the Bureau of the Budget.

Mr. RAPPAPORT. I'm sure they are taken into consideration in a very serious way.

Mr. LIPSCOMB. But there were things that your examiners missed when they were there on the spot?

Mr. RAPPAPORT. Our examination is not made in the same manner as an audit. We don't audit.

Mr. LIPSCOMB. I realize that. But they were dealing in dollars and cents. But you must have an evaluation of the program.

Mr. RAPPAPORT. It is quite likely that our people have that information but I personally don't know.

Mr. LIPSCOMB. There is one further thing, Mr. Chairman, and that is on section 5 of the bill. That calls for joint General Accounting Office and Bureau of the Budget studies of duplicate central accounts and internal auditing in the Government.

Do you see any reason why we should not place more emphasis on this, more emphasis than is being placed now in the reports on progress?

Mr. RAPPAPORT. This area is being covered by the joint accounting program. I am sure it could be speeded up under certain circumstances. The question is whether it is desirable and necessary to speed it up. I think it has been going along in an orderly way and I think it is a sound way to do it.

Mr. LIPSCOMB. The fact is that you have just scratched the surface in this field. If you took your 8 people and the GAO took their people and the Treasury took their 60 and put it in a central position you could do the job adequately, but you are spread so thin you can't do an adequate job in any area. With more emphasis, and if Congress

sets this as a policy, you will have to tell Congress that you need more resources, bodies to do the job, and that is why we want an adequate report on this problem.

Mr. RAPPAPORT. If you want matters speeded up you will have to supply more people. Whether the speedup would be effective or not I would not venture to predict at this time.

Mr. LIPSCOMB. It isn't just a speedup that we are talking about. It is an adequate coverage of the whole program. For instance just the other day the President sent a message to Congress which included a request for $400,000 more additional money which you need to implement what you are now doing by executive arrangement.

Why was it that that had to take a special message from the President in order to add to that supplemental appropriation? And why wasn't that in your budget when it came up to the Hill originally knowing that all of these factors are necessary and that you intend to implement them and it happens that you are not satisfied with the progress made today?

Mr. RAPPAPORT. The Hoover Commission recommendations were very carefully reviewed by the Bureau of the Budget and it was not until a review was made and an opinion formed that the supplemental was requested.

We did not just accept the Hoover Commission recommendation without study of it. We wanted to be satisfied that it was sound and proper.

Having satisfied ourselves in the areas that were indicated, we then went ahead and asked for this supplemental.

Mr. LIPSCOMB. It seems to me, in the field that the Bureau of the Budget is working on, that these things should be very obvious to the professional people that you have on your staff, and the amounts could have been asked for in the budget for many years to do the job.

Mr. RAPPAPORT. I can see your point of view.

Chairman DAWSON. Mrs. Harden?

Mrs. HARDEN. No questions.

Chairman DAWSON. I would like to get into the record the background of the two witnesses who testified. Will you give the information how long you have been with the department? Your background?

Mr. RAPPAPORT. I am an assistant director of the Bureau of the Budget. Mr. Armstrong is a member of the Accounting Staff in the Bureau of the Budget.

Chairman DAWSON. How long have you been with the Bureau of the Budget, Mr. Armstrong?

Mr. ARMSTRONG. Since 1941.

Chairman DAWSON. Were you in government before that?

Mr. ARMSTRONG. No; I was with Griffenhagen Associates, management engineers.

Chairman DAWSON. Oh, yes. If we should desire your further testimony, would you come back up at our request?

Mr. RAPPAPORT. Yes, indeed. We will be delighted to do so.

Chairman DAWSON. Thank you for your testimony and the help you have given us.

At this time we will hear from Mr. Conick of the United States Chamber of Commerce.

STATEMENT OF M. C. CONICK, CERTIFIED PUBLIC ACCOUNTANT, PITTSBURGH, PA.; ACCOMPANIED BY J. K. EADS, UNITED STATES CHAMBER OF COMMERCE

Mr. CONICK. Mr. Chairman, and members of the committee, my name is M. C. Conick. My address is Pittsburgh, Pa. I am senior executive partner of the auditing firm of Main & Co., certified public accountants.

I am past president of the Pennsylvania Institute of Certified Public Accountants, and a past vice president of the American Institute of Accountants.

I appear on behalf of the committee on government operations of the Chamber of Commerce of the United States, to support the accounting principles of H. R. 9402, H. R. 7338, H. R. 7209, and H. R. 8236.

Mr. Chairman, I am accompanied here by Mr. Kirk Eads, manager of the taxation and finance department of the United States Chamber of Commerce.

My statement relates to the recommendations on budget and accounting recently reported to the Congress by the Commission on Organization of the Executive Branch of Government.

The Hoover Commission task force, in submitting these recommendations, estimated that the resultant savings might reasonably be expected to amount to $4 billion annually. These savings, it is believed, can be accomplished without impairing essential Government services, including those connected with national defense.

There is no congressional power more important than the control of appropriatitons. It has been recognized since the early days of the Republic that supervision of the Nation's purse strings was a prime responsibility of the Congress, and the Congress has responded to that responsibility with a high sense of duty.

Today the task of weighing this country's appropriations is more complex than it has ever been before. That task, staggering as it is in its dimensions, is made even more burdensome by the fact that the Government's present accounting methods are far less efficient than they should and could be, and do not give the best possible picture to you Congressmen who must make the decisions.

I have been active in the field of accounting for 40 years; I have worked with some of the largest organizations in the country; and I can tell you that I would not care to change places with you at appropriations time, not under the conditions under which you operate. Those conditions can be changed and improved.

Furthermore, the people on whom you must rely for much of your information are not necessarily the people best equipped to present it to you. In the first place, their point of reference is not the same as yours; they are understandably concerned with the continuation and enlargement of certain programs, and with considerations that affect their own personal well-being.

In the second place, they are persons whose primary talents lie in fields other than budget reporting; they may be excellent field commanders, agricultural specialists, or diplomats, but they are not likely to be the best authorities on the care and preservation of the dollar.

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That is a problem that industry faces, as well as Government, and industry solves it by means which are inherent in the 25 budgeting and accounting recommendations of the Hoover Commission.

In this connection, I should note the obvious difference between private industry and Government, which is that private industry is run for profit.

That difference makes the businessman's task a lot easier than yours; he can judge his company's position by seeing whether it is making a profit. You have no such rule of thumb. For that reason and for other apparent reasons, you are even more obliged than the businessman to see that the money you appropriate is wisely spent.

The national chamber has long recognized the conditions reported in the Hoover Commission's report to Congress. In April 1953 the chamber recommended, as it now does, improved methods of appropriation, with the most modern and effective procedures for budget preparation, review, and control.

The proposal laid particular emphasis upon cost-consciousness in the presentation of budget requests to Congress, and called for the establishment of responsibility for the saving of tax money.

We have no argument with the budget process. In fact, we have held for a long time that this process is in that the logical chief control over Federal expenditures, because the budget, after all, amounts to the financial blueprint of a work program; perhaps a blueprint seen through smoked glass, but a blueprint nevertheless.

However, as we in the chamber have followed the budget process from beginning to end—from congressional authorization of a spending program—which, according to one representative, is where all the trouble starts—to the actual disbursement of the taxpayer's money—we have observed many basic weaknesses.

I would like to call attention again to some serious defects in our present system of budgeting.

(*a*) The lack of dependable information concerning overall costs of new programs and projects.

(*b*) Lack of enough independent information concerning the actual necessity for the funds requested.

(*c*) The fact that Congress has no control over actual expenditures, once the money has been appropriated.

(*d*) The fact that budget presentations, supported by charts, tables, and other graphic material, reflect emphasis not on cost consciousness, or the necessity for the proposed expenditure, or minimum requirements, but primarily on the petitioner's intense desire to get the cash out of the Congress.

I have already referred to the chamber's policy as set forth in April 1953 and adopted by our membership. At its 44th annual meeting, held earlier this month, the chamber adopted a policy declaration commending the work of the Hoover Commission.

Here and now, we are principally concerned with the Commission's report on budget and accounting, which makes 25 recommendations. I would like to summarize a few of them here.

One recommendation calls for revitalization of the Bureau of the Budget. Among other things, it would place in each important Government agency at least one employee of the Bureau, who would review the agency's budget preparation and administration on a year-round basis.

The Commission recommended that budgets be formulated on a cost basis, taking into consideration inventories and working capital carryover to reflect the cost of goods and services to be consumed in carrying out budget programs.

The Commission recommended placing the budget and appropriations on an estimated annual accrued expenditure basis. That is, the budget would be expressed in terms of the charges for goods and services estimated to be received during the year.

All charges would be considered, regardless of whether or not invoices had been received or payments made. This recommendation takes into consideration, for example, the difficulty of translating the proper share of a 7-year airplane building program into a 1-year budget.

There is a recommendation for simplification of the allotment system, so that there will not have to be a separate accounting of each infinitesimal unit of government.

The Commission recommended that Government accounts be kept on an accrual basis, which would make it possible to prepare periodical financial statements for each agency showing what it owns and what it owes, as well as the current costs of the various operations.

Finally, there is a recommendation that agencies accelerate the installation of adequate monetary property accounting records, in the same way that business does, and that the costs of capital assets be depreciated over the useful lives of those assets, instead of being charged off in a single year.

Perhaps you have neither the time nor the inclination for me to review all the cogent arguments set forth in the Hoover Commission report to Congress. I am sure, moreover, that you are as familiar with them as I. I am here today to urge that the Congress take measures to regain its constitutional power of control over Federal spending.

That power, we believe, has been increasingly threatened by present means for accounting. Unless the Hoover Commission's recommendation for annual review of all items in the current budget is accepted, we shall continue to mortgage away our future.

What I have talked to you about has been the chamber's policy on the report as endorsed without exception by nine members of the Hoover Commission. I would like to summarize the brief dissents filed by the other three members of the Commission.

No more than a summary is necessary, especially since 2 of those 3 members are also members of this committee.

Commissioner Brown dissented from recommendation No. 7 of the report because he felt that conversion of the appropriation structure to an estimated annual accrual expenditure basis would require widespread changes in the entire appropriation process.

Mr. Brown. Will the witness suspend there just a minute, Mr. Chairman, as a matter of privilege, I don't believe that statement properly reflects the dissent that I prepared as a part of the document of the Hoover report, and I would like to read into the record at this point that very short statement.

It was simply this, "I cannot fully accept recommendation No. 7 to convert the congressional appropriations structure to an estimated annual accrued expenditure basis. This is a radical departure from a long-standing fiscal policy which would require widespread changes

in an entire appropriation process. I am therefore unwilling to give that a blanket endorsement without the benefit of further study as to that by the appropriate committees of the Congress," which is just a little different than your statement.

Mr. CONICK. If I didn't summarize it properly, I'm sorry. You quoted exactly what is in the Hoover report.

Mr. BROWN. Yes, exactly the dissent.

Mr. CONICK. Commissioner Holifield stated it as his overall conclusion that "the end result of the Commission's recommendations may be formal consistency in accounting principles rather than actual gains in economy and efficiency."

Again, I am summarizing only one sentence whereas his dissent is longer.

Commisssioner Farley based his general dissent on the belief that what may be good for private commercial enterprises is not necessarily good for all Government activities and operations; that the transition to cost-basis accounting will require tremendous expense and inconvenience; and that there is insufficient evidence that it will be universally workable and worthwhile.

Again his dissent is much longer, and I summarize.

These objections have been duly noted and soberly considered. We base our support of the report as a whole on the fact that it makes recommendations which have been tested and found essential in successful private business, and the differences between the management of private business and of public government are differences of ends rather than of means.

We recognize that certain disruptions would be brought about by introduction of the procedures recommended, but the fact is that the present procedures are not adequate to permit Congress to perform its function properly, and that the situation is growing worse, instead of better.

We believe that the long-range benefits to be derived from adoption of these recommendations will more than offset the temporary disruptions, and that the recommendations should be supported by every Congressman who believes that the Republic is going to be around for a good many more years.

I have appreciated the opportunity to appear before you and to state this case for the United States Chamber of Commerce.

Thank you very much.

Chairman DAWSON. Mrs. Harden, any questions?

Mrs. HARDEN. No questions, Mr. Chairman.

Chairman DAWSON. Mr. Brown?

Mr. BROWN. I have no questions.

I simply want to compliment the gentleman on the general portent of his statement. I am sorry I interrupted him but I want to put the record straight.

Chairman DAWSON. Mr. Lipscomb?

Mr. LIPSCOMB. I have no questions but I wanted to also compliment the gentleman and also to note that he recognized the difference between private accounting practices and what has to be practiced in Government.

Mr. CONICK. I have been with it for 40 years, both in the Government and outside Government.

Mr. LIPSCOMB. There is a great deal of difference in a lot of respects.

Mr. CONICK. A great deal of difference.

Chairman DAWSON. You have read H. R. 9402, have you?

Mr. CONICK. I have, sir.

Chairman DAWSON. Do you agree that it is desirable legislation, taking into consideration——

Mr. CONICK. Mr. Chairman, I can't speak on the procedural part of it. I am not in the department. I am not familiar with the workings of the department. The principles are good. They are sound. The objectives are good. I like the objectives. I think in the long run, the accounting will be placed upon a basis that it should have been a long time ago, and that is a basis by which you can determine what the cost is of what you are doing.

Chairman DAWSON. You have heard the testimony of the representative of the Bureau of the Budget, did you not?

Mr. CONICK. I did, sir.

Chairman DAWSON. And you heard that they made some progress in carrying out those recommendations?

Mr. CONICK. I heard that and I believe they have.

Chairman DAWSON. In the light of that testimony, are you still of the opinion that you would support H. R. 9402?

Mr. CONICK. Yes, the principles I would.

Chairman DAWSON. And do you believe that this legislation carries out the principles that in your mind should be applied to the present budgetary situation?

Mr. CONICK. I do, and objectives also.

Chairman DAWSON. I didn't mention the other numbers because the authors of those bills have said if this bill is adopted, they will withdraw support of theirs for support of this.

Mr. CONICK. I read those bills also and practically word for word they contain the language of 9402 except for the appointment of the officials, then it must be done with the consent of the Senate, whereas in 9402, it does not call for that requirement.

Mr. HENDERSON. Mr. Conick, I was interested in your statement on page 2 that the people on whom the Congress must rely for much of this information are not necessarily the best equipped people to present it to us. I wonder if you would care to elaborate on that?

Mr. CONICK. Well, sir, I had some experience in Government many years ago, in budget work and in accounting work. My experience in Government is that most of the persons in the accounting side and in the administrative side are not well trained in accounting.

They are well trained in other ways. They have a fairly good idea of accounting. They do not quite have the experience or the training or the education that is present at the moment in the Bureau of the Budget because I happen to know some of the men personally.

I think in time the accounting personnel of the Government will improve. And the Hoover report is making recommendations toward that end, in improving the personnel and the kind of personnel.

They stress especially not quantity but quality of personnel. I believe I am expressing, Mr. Stewart, your conclusion as to personnel; that it should be improved rather than increased.

Mr. HENDERSON. I take it then that the type you would recommend would be those who have been better trained in accounting?

Mr. CONICK. Yes, sir.

Mr. HENDERSON. Than those who are now in the Government?

Mr. CONICK. Yes, sir.

Mr. HENDERSON. Thank you.

Chairman DAWSON. Mr. Pincus?

Mr. PINCUS. No questions.

Mr. LIPSCOMB. If what you say is true, sir, don't Congress and others involved in the situation, such as the Civil Service Commission, have to face up to more realistic classifications and more adequate pay for professional accountants in Government?

Mr. CONICK. No question about that in my mind. I met that problem in 1914 when quite a youngster in Pittsburgh. The very question was then raised that the council and the mayor of Pittsburgh had to face up to a better classification of employees as early as 1914. That has been the case for years in Government, that the type of employee was improving and the classifications were such as to bring about a greater improvement.

Does that answer your question?

Mr. LIPSCOMB. Yes, sir.

Chairman DAWSON. Thank you very much, Mr. Conick.

We will hear from Mr. Stewart.

STATEMENT OF J. HAROLD STEWART, CHAIRMAN, TASK FORCE ON BUDGET AND ACCOUNTING, HOOVER COMMISSION

Mr. STEWART. Good morning, sir. My name is J. Harold Stewart. I was the chairman of the task force of the Hoover Commission on budgeting and accounting.

Chairman DAWSON. You are the man who started things.

Mr. STEWART. Well, I would rather be the man who finishes them.

I have held various positions in the accounting profession. I am not going to burden you with that sort of thing because I don't think it really goes directly to the problem you have before you.

It is a privilege to come here. I might say I want to apologize to you, Congressman, for not answering your letter promptly and telling you I could be here but I expected to be in Chicago at the moment and rearranged my program.

Chairman DAWSON. We are happy to have you.

Mr. STEWART. I am particularly glad I came if for nothing more than to hear the discussion that took place this morning and to hear the penetrating questions asked by the gentlemen who really have studied this question, I'm sure.

I have no prepared speech. As a matter of fact, I have become a little impatient with ghost writing, having seen a good deal of it in the last 6 or 8 months and unfortunately sometimes the statement is not even read before it is presented, so I come to you just as I am without a prepared statement.

It seemed to me that I could perhaps best direct what I have to say to laying to rest, if you will, some misunderstandings about the committee's recommendations. There appears to be very little misunderstanding as far as the authors of this bill go, but I am sure you will have testimony which will indicate some misunderstanding of the objectives of the task force.

In the first place I have heard it said that to get away from the appropriational authority system of operating this Government, obligational authority system, would dilute congressional control.

In my opinion it would do just the opposite. It would strengthen congressional control because today appropriations in terms of obligational authority have become very nebulous.

We just heard some talk there this morning about the foreign-aid situation.

I think that is illustrative of the difficulties that come from giving what in effect is a blank check. I have heard it said that if you go to an annual expenditure budget—and incidentally that is not a part of this bill but I believe very strongly in an expenditure budget in terms of accrued expenditures—if you go there, you have in effect two accounting systems then, and you do away with the congressional control of obligational authority. Nothing could be further from the truth. We felt we made it abundantly clear in our report that it is necessary that any agency spending funds be able to protect itself against the allegation that funds were spent without due authority of law.

Constitutionally no agency can spend funds without authority of the Congress. We would not dilute that one iota. We would, however, not require the meticulous accountability which we now find throughout the Government.

The process at present is somewhat like this, as I see it. The agencies' request goes to the Congress, having been through the sieve of the Bureau of the Budget to justify their requests for appropriations.

Once they have obtained them they thereafter must account for the fact that they have not spent more than the amount they were able to obtain through the appropriation route.

However, within the agencies themselves, there is a much more important operation than the mere preparation of the obligational budget.

You can't run an agency, you can't run a company, you can't run any operation without what in effect is an administrative budget.

In other words Congress gives you money in certain pieces. But in order to handle that money effectively, in order to be able to report back to the Congress and to the people, even to the head of an agency on its use, it is necessary that you have what we might call an administrative budget. The administrative budget in some agencies takes the form of a so-called allotment system, an allotment system under which the appropriated funds are broken into bits and pieces and controlled piecemeal.

I understand they are trying to possibly improve this—but at the time we looked at the picture the allotments in the Defense Department were quoted as being over a million in number. How on earth can you run an organization effectively with over a million allotments of funds? I have talked with Mr. McNeil about this. I understand that he agrees with me that the simplification of the allotment system is a desirable objective. In my opinion it would be simplified quicker if we went to an accrued expenditure budget, which is really compelling.

The question has been raised as to whether or not the adoption of these recommendations would increase the cost of accounting. During the transitional period, I would expect there would be some increase in accounting.

However, once shaken down and operative I would hope there would be a decrease in the cost of accounting because you can manage the detailed accounting that is necessary for a system we will say as in the defense department where you have a million allotments of funds.

That allotment system gives rise to another difficulty.

It is necessary to comply with the so-called antideficiency act and the finer you break these allotments, the more violations you are apt to find of that statute.

The allotments are largely the making of the agency itself. Now I would hope that with a broader allotment structure we would not find a repetition of the situation in which there were thousands of violations of this antideficiency act which to be sure were purely mechanical, purely technical, but they all take time to explain.

So let us understand that the accountability to Congress for the appropriated funds will not be diluted one iota in our concept.

There has developed some difference of opinion as to what was intended by our report. I think the recommendations in our report have been confused with a concept that as far as the control of funds went, we took a flat position either for or against these so-called working capital funds.

Now, I don't think the water should be muddied by the consideration of funding primarily because it seemed to us that the first thing to do is to establish a sound accounting system. If you let the funding fall in place either in the form of working capital funds where they are useful or under the regular appropriations system where that seems to be the better device. I might say that the installation of working capital funds in some areas of the Department of Defense has worked very well.

I think that innovation is one of Mr. McNeil's contributions to the Department of Defense. I still believe, however, that we have to guard against looking upon the extension of working capital funds as a panacea, as the thing that will give us sound accounting.

I hope there is nobody who takes that view but sometimes I get fearful that that view is held in some quarters.

Now, our accounting system it seems to me is essentially the same whether we get funds under the allotment structure or under the structure of working capital funds.

What was said this morning by way of questioning, Mr. Lipscomb asked questions which brought out the fact that there was a lack of knowledge as to inventories, also as to obligations.

I don't think anyone can deny that in the obligational field, there has not been adequate control of obligations even under the present system. In fact as I understand it, the situation reached a point where the Congress felt it had to pass a law defining obligations, then under that law there was a mandate that the Defense Department and other agencies report the amount of outstanding obligations. Even that was difficult to comply with. Whether it has been complied with now or not, I don't know. But I do know in this field of obligational accounting there was much to be done at the time we made the review.

How you can operate a department or the Government as a whole without knowing within reasonable limits what you own, and what you owe, that is what your obligations are, and be able to account in monetary terms for what you have done with what you had, is difficult to understand.

I am speaking up to now perhaps it might appear critically, but it is only through criticism that we develop facts. I have every sympathy with the people in Government whether they are in the Bureau of the Budget or the Defense Department or the Treasury, who have this tremendous problem to wrestle with.

All I would like to do is contribute anything I can do to strengthen their hands. I think what you gentlemen have done here is to awaken a consciousness of the fact that there is such a thing as fiscal control in Government.

I was interested in Mr. Rappaport's testimony. Mr. Rappaport I think found himself in a very difficult position.

He stated the Budget Bureau policy which may have appeared to be at least in some respects giving lip service rather than real service to some of the provisions of the bill.

However, I don't believe that was the intent from my knowledge of the people who are working on this particular thing in the Bureau of the Budget. I do have some fear, as you have evidenced here that, as Congressman Brown said, budget directors change as fast as he changes his clothes. Even though it is not that fast, it does give some concern to people who want to see lasting and long-term reform because you know as well as I do that there is an attitude among some people in Government, whenever faced with a reform, the situation is something like this.

Oh, well, let them talk, let them struggle, time will take care of that. We will be here when they are gone. And I think that that is very apt to be the attitude of a person who does not like to be rustled out of a comfortable spot. I would be the same way if I were in the same spot, I'm sure.

I think what we need is a little sandpaper here. You have some in the bill. A little needling may be required, if you will, in order to get something done. Now there was some talk here about the joint accounting improvement plan. I would like to speak to that because we made a particular study of that activity.

Let's strip it of all its veneer. Up to the time we made our examination, it consisted of a program which was spearheaded by the Comptroller General and his systems division and the Bureau of the Budget and the Treasury were the tails to that kite. The Comptroller General deserves in my opinion most of the credit which goes to the joint accounting improvement program. To be sure the other agencies participated, but from our observation they did not supply the leadership in this thing. What we are saying is that the logical place for leadership in the executive branch is in the Bureau of the Budget. That is where you need the steam. Congressman Lipscomb asked some questions bearing upon the use of personnel and the penetrating character or lack of character of the budget review.

Those questions it seems to me are directed precisely to motivating what we had in mind. We believe there should be more steam under this program. I am sure Mr. Rappaport would put his amen to that too.

It is a question of how you really get it. I am sure that in the Defense Department, given the support of the Congress, this thing can be worked out. But to expect it to be done overnight is not to be realistic.

You see, you couldn't go overnight to an accrued expenditure budget without first laying the accounting and factual groundwork for it. If I were a budget officer in the Federal Government I would rather keep it as it is because I think it is a wonderful spot providing I have the salesmanship qualities that are paramount in a budget officer.

I can take a mass of facts which I knew more about than the people I was presenting them to, put them in a nice package and sell them and sell them in terms which could not be translated into action, that is the forecast would not match with the accounting record after the fact.

I would be in a very comfortable position, because it would be very difficult to second-guess me, once I had made my sale.

If I were in the place of the Congress on the Appropriations Committee, what I would like when the budget is presented, is a projection, in terms which were at least translatable into performance.

When it was through I would like to be able to say this was what you told me and this is what happened.

What about the difference? You can't do that at present except in very broad areas under the present system.

I can understand why it is much more comfortable to operate the other way but in my opinion it is very expensive. This big carryover of obligational authority we have is attributable in some measure to the fact that the budget is not supported by accounting facts which are understandable, interpretable by the people who have to deal with them.

Speaking of the carryover, it is no secret, it is a matter of public record that in justifying the 1955 budget I believe it was—I think the facts are in our task force report—along in January when asked what the estimated carryover of unobligated authoritly would be, the representation was made to the Congress that it would be between 1 and 2 billions of dollars.

At June 30 it turned out to be in excess of $4 billion. As I remember it, the spread was at least two and a half billions of dollars. Even to me that is a lot of money.

I am wondering whether that in itself is not an illustration of what I am talking about, by tightening this system so that instead of granting open-ended authority, we know what we are doing.

Now another objection to the cost-based budget and so-called accrued expenditure budget will be, well, we can't work this in the case of lead-time programs. We considered that very carefully and this is not the first time that this matter had been discussed.

I have heard it said that we did not know what we were talking about. Maybe we didn't but this much we knew. We had some businessmen on that committee who had sat on the other side of the table. They were the people who received contracts from the Government. We were told at the time of an earlier review for the Treasury, business objected to this annualization of appropriations. They did not like the system under which they didn't have lead-time programs with long-term contracts.

When we examined the situation more closely we found this. That instead of being worse off than at present, in many cases the contractor could be better off. Because instead of getting contracts as to the performance of which he would have to speculate, the contracts that he got would be reasonably firm and if you coupled annual appropriation, annual expenditure authority with contracting authority under

which long-term contracts could be entered into, you would do about the same thing you do now, but you focus attention on the amount of money you were going to spend in a particular agency within a particular period of time.

This long-lead aspect of procurement is a difficult one, but in my opinion it can be dealt with. As that stands today a contractor's contract can be canceled and he has his termination rights. You might have to do two things. The contracting would have to provide for reimbursement of starting-load costs and tapering-off load costs in the event of termination, because the payments for each unit would not be uniform in terms of cost.

Those are mechanical details that I think in the hands of competent people can be dealt with.

I don't want to burden you gentlemen further with a recitation of everything that was in our task-force report. I might say I am rather sorry that Congressman Brown has left because he was one of the Commission.

We made 31 recommendations, 30 of which were adopted by the Commission.

The one they did not adopt was one that I did not consider was too important. I would have liked an opportunity to thank Congressman Brown for his action on the Commission even though there were qualifications to his signature to the report.

I will be very glad to come before you later at any time if you have any question. I will be glad to do anything I can to throw further light on this subject.

I might say on behalf of my task force—I have talked with several of them about this matter—that my appearance before you was a must. This task force consisted of people who were not essentially professional accountants, lest somebody look upon its work as a technician's dream. The members of the task force were Elmer Humphreys, who is the chairman of the board and president of the United States Rubber Co.; Christian Jarchow, who is the executive vice president of the International Harvester Co.; Kenneth Tiffany, financial vice president of the Burroughs Co.; Dudley Brown, comptroller of Lockheed Aircraft Corp.; Gwilym Price, president of Westinghouse Electric Corp.; John David Wright, president, Thompson Products, Inc.; and myself.

And I would like to say this further about the task force. When Mr. Hoover set this task force up I was inveigled to do this job, but he was very good about it. He said the task force can be just a large or just a small one, as you in your judgment choose to make it.

My judgment was to make it small, rather than have a 21-man task force of big names who did no work; I would rather have 7 men who really worked and worked closely with the staff.

And I can assure you there is not a line, there is not a punctuation mark, there is nothing in that task force report that was not processed, reviewed, and asserted to by each member of the task force. It has been a privilege to come here and talk to you; I only hope that you get some of this legislation.

I haven't yet talked about the bill itself, which perhaps I should before I leave.

I recognize Mr. Rappaport's—I wouldn't call them objections, but suggestions for changes.

They are born, I think, of an idea that some of these things can be better done administratively than legislatively. If I were sure that the administration of the Bureau of the Budget would continue as it is at present, I would be completely convinced of that. I don't have that assurance. And I think a word from the Congress, an indication of the way you gentlemen feel about this matter is needed. It is needed particularly throughout the Government agencies to indicate that this is necessary, and something must be done about it.

In the past Congressman Lipscomb asked what had been done; there has been progress, certainly, in spite of the lack of concerted effort and drive. There have been dedicated individuals who have been primarily responsible with very little help. And I want to say that the General Accounting Office, particularly the systems division, has motivated whatever improvements I have been able to find in the agencies generally.

There have been some improvements in the Department of Defense as to which they have had very little participation.

But I certainly believe you must have cooperation between the Bureau of the Budget, the Treasury, and the Comptroller General. That is necessary whether you have legislation or not, but that in itself, a cooperative effort will not get the job done. I think the individual who fills this job in the Bureau of the Budget, the position that Mr. Rappaport is now filling, has a very important spot in it, because you can have all the committees, all the cooperative movements you wish, but action depends usually on an individual.

I always remember, I think it was Mr. Kettering, who is quoted as having said when his wife looked up from the newspaper and speaking of Lindbergh's flying the ocean said, "What a wonderful thing that was, what a wonderfully self-reliant thing that was," the old man looked up and said, "It would have been more wonderful if a committee had done it."

I think there is a lot to it but Government being what it is, it is a process of reconciling sometimes conflicting interests.

Chairman DAWSON. Mrs. Harden?

Mrs. HARDEN. I would like to commend you, Mr. Stewart, and the members of your Task Force on Budget and Accounting for your efforts and your fine contribution for better government.

Do I understand that you do feel there has been some improvement?

Mr. STEWART. There has. Take the Atomic Energy Commission, for instance. They started from scratch. They had a new trail to blaze. They have done a reasonably good job of setting up what I call a meaningful accounting system. I recently read their annual report. No two people will agree completely on what the content of it should be. I think if you could get the same thing out of the agencies generally, it will be a big step forward.

Mrs. HARDEN. That's all, Mr. Chairman. Thank you, Mr. Stewart.

Chairman DAWSON. Congressman Brown asked me to apologize to you because he had to keep an appointment that he had previously made. He regretted he was unable to be here.

Mr. STEWART. It is quite all right.

Chairman DAWSON. Mr. Lipscomb?

Mr. LIPSCOMB. Would it be possible for you, Mr. Stewart, to explain what was meant in recommendation 22? That has to do with comprehensive reports.

Mr. STEWART. Yes.

Mr. LIPSCOMBE. It is section 1 of the bill, 1 (a).

Mr. STEWART. That is the one in which we were trying to get comprehensive reporting, you might say first for the agency as a whole and then for the Government as a whole. If you will let me—what section is that?

Mr. LIPSCOMB. Section 1 (a) of the bill, recommendation No. 22 of the Hoover Commission report.

Mr. STEWART. What we had in mind there was this, that we would like to see reports which indicated not only what an agency had done in terms of dollars but what it had done in terms of services rendered, missions accomplished.

The dollars themselves of course are meaningless alone. Suppose you are running a hospital. Suppose you are running Walter Reed Hospital.

We would like to see something that said what the cost of running the hospital was, what the number of patients is, what the cost per patient was. We could then compare it with civilian hospitals. What the hospital population was, the personnel consisted of. I would consider that a comprehensive report in that particular area. A comprehensive report would have to be tailored to the particular activity. That was purely left fluid. That is a matter for the Bureau of the Budget to apply its talents to. Certainly they could only go in one direction so far as reporting goes.

Speaking of reporting reminds me of another matter. That is there is nowhere in Government at the moment any responsibility to report annually to the Congress on the economic health or the condition of the fiscal control within the Government.

I would hope that the Government would develop that. The Comptroller General is the servant and the watchdog of the Congress but he is not required to report annually on the fiscal health.

I think there is a good deal of virtue in that. If I were running an agency and were being reviewed by either the Comptroller General or the Bureau of the Budget and I knew that the day of reckoning was coming, that is, there would be a report on my performance, I think I might be a little more watchful and stretch myself a little further to make a reasonable respectable showing.

The Comptroller makes a report but it is not all inclusive and it is not pointed at that particular thing.

Mr. LIPSCOMB. Did the task force look into the reports that are presently being made to the Treasury Department?

Mr. STEWART. We did, but those are, as we were looking upon it, those are purely fiscal reports.

The Treasury is pretty much in the position of a cashier. To me the least informative part of the Government's financial picture is what you get in the Treasury.

I think the Treasury has looked upon itself as essentially a cashier. We considered very carefully whether the centralization of reporting should be in the Treasury or the Bureau of the Budget. Our considered judgment was that the Bureau of the Budget was the logical place because they more nearly compare with what we will call a comptroller's office in a great corporation and the Treasury is essentially the treasurer.

Mr. LIPSCOMB. I believe the Treasury testified yesterday that if this function was put into the Bureau of the Budget it would be a duplication of effort. The Treasury felt they were able and qualified perhaps to do the job themselves, and then they felt the Bureau of the Budget would just have to request the reports from them to do their work.

Mr. STEWART. It seems to me that the information that you would get from the Treasury would be only the purely mechanical part of the reports that the Bureau of the Budget would develop.

Mr. LIPSCOMB. In your opinion, would there be a duplication of reporting functions here?

Mr. STEWART. No.

Mr. LIPSCOMB. Would there be a duplication of information?

Mr. STEWART. Well, there is no question the Bureau of the Budget would have to get much of its information on the actual cash flow from the Treasury but that is a fairly simple and mechanical process.

As a matter of fact we did find that even in the Treasury there was duplication because out in the agencies there was information which under a more enlightened approach we felt could be utilized. In other words there is duplication in that area.

Mr. LIPSCOMB. That's all I have.

Mr. HENDERSON. Mr. Stewart, the task force estimated that savings of $4 billion would result from the——

Mr. STEWART. I expected that question. You know I wish everything was as easy to answer as that. We had quite a discussion in the task force as to what the projected result might be. I won't tell you what the range of opinion was because it would not help this particular matter any, but one member who is a man of considerable experience said this. He said, "Suppose you were trying to run a great corporation," let's take the biggest in the world, Standard of New Jersey. Or the Telephone Co., or any national corporation with no guideposts, with no underpinning of financial fact, and with information which you found from time to time was faulty. In other words, you are running it by guesswork. What would you set as a reasonable objective by way of saying?

Let me say, we then looked at the budget and we found in it as you know there is a large portion that make very little difference what you do by way of management control because it is set by statute and by continuing statute. Take the veterans' legislation. The consensus was that you should save at least 10 percent of the variable budget, which would be what, $4 billion. After some conversations I have had and some things I have seen since that, it was purely an estimate, it can neither be proved or disproved in my opinion, but as a result of conversations I have heard, particularly since I came here this morning, I don't believe that is unrealistic at all.

Honest men may differ on that figure but what we are trying to drive home is that tremendous savings can be obtained by having the knowledge of financial facts.

Mr. LIPSCOMB. That is what this figure was based on. The reason I ask is it would help us in our work if you had the particular references in mind.

Mr. STEWART. I wish I could help you. Suppose you ask me, not the whole Government, but said how much would you save in the Defense Department? You ask Mr. McNeil, he might say he wouldn't save

any. He might or he might not. Honest men can differ on a range of opinion like that. I don't think you will ever get any piece by piece putting together of a figure. I think you will get judgments.

Mr. HENDERSON. Just one other question, Mr. Stewart. Would you suggest what the basic reasons might be for the long continuance of the present system of budgeting in the Government?

Mr. STEWART. I think it's twofold. I think within the agencies there is a natural tendency to maintain the status quo. I rather suspect that even the committees of Congress or those members of the committee, would just as soon not have to learn new tricks. It does mean a change. It means a change in thinking and approach.

Yes, I am sure that once alerted and convinced that it is necessary, both the agencies and the Congress will do something about it. But there has been no—let's put it this way—there has been no drive on the executive side of the Government comparable to the drive provided by the Comptroller General on the congressional side.

There is a complete hiatus there. What we are trying to do is to put some steam in there and strengthen the Comptroller's hands because I have talked with the Comptroller General and his predecessor and he has a real difficult time.

First to find the facts in these agencies, not that they are deliberately concealing them, but then it never occurred to them that it is necessary to do other than justify appropriations in conventional terms. I think there has been a good deal of thought given to this even before we took it up.

There have been attempts to regain the public purse, such as the Coudert amendment for instance.

Any straitjacketing by putting a ceiling on budgeting expenses to our way of thinking would be a mistake, because you have to be selective about this thing and you have to understand what you are taking and from whom.

Mr. LIPSCOMB. Have you had an opportunity to review Mr. Cannon's proposal, the chairman of the Appropriations Committee, in which he wishes to take all of these functions away from the Bureau of the Budget and set up a new office that would be similar to that of the Comptroller General?

Mr. STEWART. Only briefly. I saw a memo on that, but personally I think that the present organization is sound. I think organizationally it is sound that the Comptroller General represent the Congress and that the Bureau of the Budget be the President's arm.

You must have those two things. I would be afraid if you went along with Mr. Cannon's suggestion that you might then find an abandonment of responsibility in the executive side and that is the last thing we want.

We want assumption of responsibility if we can get it. We want their feet put to the fire.

Chairman DAWSON. Any further questions?

Mr. Pincus?

Mr. PINCUS. No questions.

Chairman DAWSON. If I understood you correctly, you said there is nothing in the recommendations of the Hoover report that would weaken the control of the Congress.

Mr. STEWART. Nothing. As a matter of fact, Congressman, we considered very carefully—you may remember that the first Hoover

Commission recommended a so-called Accountant General. That was recommended out of recognition of the need for someone to spearhead accounting improvement in the executive branch.

We examined that proposal very carefully as a starting point. We concluded that in the present climate it was unsound. In the first place, looking at the performance of the Comptroller General since the act of 1950, which, of course, was a great help to his performance, we found there was nothing in the Comptroller General's performance that was an impediment to improvement in the executive branch if it so chose to improve it.

There are those who have tried to make conflict even with the Comptroller General, on some of the recommendations of the Commission by saying that well, the Comptroller General should be stripped of his power—and his is real authority—and it should go to the Bureau of the Budget. We did not agree with that, because we feel this situation is different than corporate business where you have a comparison between stockholders and management.

In government you have a dual interest, both the Congress and the Executive have responsibilities in the operation of this Government. You can't shut the door on either one. The thing is to get them together. The Comptroller General has a right to prescribe policies and standards. He is the congressional mouthpiece from that standpoint. He has been very wise I think and discerning in his use of that power, because he has set forth a statement of principles and standards that is broad enough for anyone to operate under.

He has not attempted to get directly into operations and where the systems division has gotten in with the agencies to actually work on systems, that is usually by invitation because they had nowhere else to go.

Chairman DAWSON. Thank you very much, Mr. Stewart.

We may ask you to come to us again before these hearings close, if we get into some difficulties.

Mr. STEWART. Thank you, sir.

Chairman DAWSON. There are various committee papers, with the consent of the committee I would like to place them in the record at this point.

(The documents referred to are as follows:)

STATEMENT OF HON. HENRY S. REUSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Chairman and fellow members of the committee, I have introduced H. R. 11052 because of my strong belief that the utmost efficiency and economy in Government operations are not only compatible with, but are absolutely essential to, effective functioning of the enormous range of activities of the Federal Government. H. R. 11052 is based on the recommendations of the Hoover Commission.

The fundamental purposes of H. R. 11052 are:

1. To make the Bureau of the Budget responsible for developing comprehensive reports—other than purely fiscal reports—showing the financial results of the operations of the Government as a whole each year;

2. To require the use of cost-based budgets and accrual accounting in all Government agencies;

3. To place Bureau of the Budget personnel in Government agencies to keep a careful review on the budgeting process.

These are technical matters developed by experts but their aim is very simple: to make sure that our fiscal control system operates as efficiently as possible. By tightening up the budgeting and accounting processes, I believe that we could save many millions of dollars. We could avoid such costly mistakes as the

recent waste of $250 million on unusable Navy fighter planes which apparently was caused by lack of adequate regular review of on-going programs.

I hope this committee will give prompt and sympathetic consideration to H. R. 11052.

HOUSE OF REPRESENTATIVES,
Washington, D. C., May 18, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: It is my understanding that the Subcommittee on Executive and Legislative Reorganization is planning to hold hearings May 21 and 22, on H. R. 7209. I should like to make a brief statement on behalf of this bill, urging that your subcommittee seriously consider its approval.

I introduced H. R. 7209 on July 7, 1955, shortly after I had examined the June 1955 report of the Commission on Organization of the Executive Branch of the Government. The purpose of the bill, in brief, is to carry out recommendations No. 10 and No. 11 of the Commission's report.

It is my understanding that President Eisenhower has recently recommended certain changes within the Bureau of the Budget. When completed, these changes will carry out certain recommendations of the Hoover Commission. I understand also that supplemental appropriations are now being requested from Congress for a considerable expansion in the accounting activities of the Bureau of the Budget. To some extent, therefore, it can be said that the executive branch by administrative action is attempting to attain the objectives which H. R. 7209 also seeks to attain.

There is good reason for general agreement on the idea that accounting methods in the executive branch be improved. The recent action taken by the Bureau of the Budget is to be commended, and I trust that additional funds will soon be made available to make possible the proposed expansion.

Even if the changes are effected within the Bureau of the Budget, however, I think there is real merit in legislation which will express formally congressional approval of improved accounting methods in the executive branch. While certain improvements in accounting could be made without legislative action, the executive agencies often need the spur, and also the guidance, of specific legislative action. As the Hoover Commission report points out, "the Bureau of the Budget has long had the responsibility for furthering adequate accounting and financial methods in the executive agencies, yet it is evident that sufficient recognition has not been given to this responsibility."

The President himself has urged, in his message of May 10, 1956, transmitting the Commission's budgeting and accounting recommendations, that "Congress seek the early enactment of appropriate legislative provisions to support the major objectives of the Commission's recommendations."

I respectfully urge your committee to report favorably H. R. 7209.

Sincerely yours,

PETER FRELINGHUYSEN, Jr.,
Member of Congress.

SCHENECTADY CHAMBER OF COMMERCE,
Schenectady, N. Y., May 16, 1956.

WILLIAM L. DAWSON,
Chairman of the House Committee on Government Operations.

DEAR SIR: The national affairs committee of our local chamber of commerce, a group of some 30 active business people of mixed politics have asked me to urge your support for several bills which would put into effect some of the second Hoover Commission recommendations.

These bills are:

1. BUDGET ACCOUNTING—S. 3199, H. R. 9402

These bills are currently in the hands of the Senate and House Committees on Government Operations. While Senate committee hearings have been held, the House committee has not reached that step, so we understand.

These bills contain much needed legislation which would make it possible for you to visualize the progress attained, year to year, in the implementation of appropriations you have granted and would, for the executive branches of the

Government, allow those in charge to know periodically how their funds have been spent. These steps would do much to advance better business management of Government affairs.

To the members of the two Government Operations Committees, addressed above, we especially appeal for prompt, favorable reporting of these bills to their respective legislative bodies.

We urge the others addressed, as well as committee members, to bring these bills to an early vote and to vote for them.

2. PERSONNEL AND CIVIL SERVICE—S. 2333, H. R. 6549

Private business has found it profitable to retain carefully selected employees experienced in their fields and believe the same principal would hold in governmental affairs. In business, rewards are often adopted to induce continuance of service. These bills would make it not only possible to select under civil service, but also to elevate the stature of more capable persons.

3. BUSINESS ENTERPRISES OF THE GOVERNMENT—S. 1003

Government operation tends to creep into competition with private enterprise. The reasons for Government entering such fields may or may not be justified when initially contemplated so reviews of the cases found should be periodically made as well as the establishment of a policy which would discourage Government competition with private business.

Section 638 of the 1956 Defense Appropriations Act tends to discourage to good intentions of the Defense Department by requiring all Defense closings to be referred to Congress. That effect should be eliminated from the 1957 act. No doubt each of you have special interests toward retaining Government operations in the areas you represent. Reasons for these interests can be given the Defense Department who would then be in a position to balance them against the reasons for closing the Government activity. Your action toward elimination of the intent of section 638 from the 1957 act will, in the minds of many voters as well as our national affairs committee, indicate that you are interested in promoting the overall welfare of the country which, in the end; may well mean the welfare in the area in which it is proposed to discontinue the Government plant.

Such action on your part will remove the stigma attached to the "pigeon holing" effect section 638 now implies.

It may interest you to know that our national affairs committee has twice confirmed its previous stand that we would not ask for special Federal aid for this locality.

4. MEDICAL LIBRARY—S. 3430

Search for better health and living grows more intensive as knowledge increases. Time has become an element of great importance. Therefore the secure preservation of records of things attempted in medical affairs and their results may obviate the need for reinvestigations and save much effort as well as time.

5. SURPLUS PROPERTY—S. 2591; TRAFFIC MANAGEMENT—H. R. 6854

The businessman is appalled not only by the very small return realized from the sale of surplus Government property but also by the lack of general catalog- and interdepartmental use of Government stocks of goods.

Likewise, efficient management of traffic to reduce duplication and waste has a strong appeal to those whose business affairs are dependent on their own efficient management.

6. PAPERWORK MANAGEMENT

Bills are needed to eliminate the duplication of information required by the Internal Revenue Bureau Service Forms 941 and 941A.

Past favorable action on your part toward the Hoover Commission recommendations has been noted with satisfaction. Much more is needed and can be done to improve the efficiency and economy of Federal affairs.

We urge you to give favorable support and prompt action to the legislation mentioned above.

Sincerely yours,

A. GRAEME DARLING,
For the National Affairs Committee
of the Schenectady Chamber of Commerce.

THE AMERICAN LEGION,
NATIONAL LEGISLATIVE COMMISSION,
Washington, D. C., May 22, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Subcommittee on Executive and Legislative Reorganization, House Government Operations Committee, House Office Building, Washington 25, D. C.

DEAR CONGRESSMAN DAWSON: Referring to the hearings now being conducted by the Subcommittee on Executive and Legislative Reorganization of the House Committee on Government Operations in connection with bills H. R. 7209, 7338, 8236, and 9402 I would like to submit the following statement:

H. R. 7209 and H. R. 7338, which are virtually identical, are bills intended to provide for improving accounting methods in the executive branch of the Government. The American Legion does not oppose the objective sought to be accomplished by the bills. We feel, however, that the committee should make it clear that, with reference to personnel selected by the executive agencies, the function of the Bureau of the Budget is to be advisory rather than directory. We make particular reference to sections 120 (b) (4) and 121 (a). It would seem contrary to sound administrative practice to weaken the authority and responsibility of the executive agency by imposing upon it the mandate of another agency in personnel affairs. The proper role of the Budget Bureau is, we believe, in the field of methods and procedures.

With reference to section 121 (a), line 5, page 3, we suggest that the language be rephrased to make it clear that the Comptroller is to be responsible to the head of the executive agency and not to the Assistant Director for Accounting.

H. R. 8236 is a bill to provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof. The American Legion offers no oppoistion to the bill.

H. R. 9402 is a bill to improve governmental budgeting and accounting methods and procedures. Our general comments on H. R. 7209 and H. R. 7338 are applicable here. The American Legion, of course, advocates improved governmental budget and accounting methods. We feel, however, that the committee should make it clear that the province of the Bureau of the Budget is budget and accounting methods. The provision of the bill assigning Budget Bureau personnel to executive agencies would be highly objectionable if the personnel interfered with the program activities of the agencies. The Budget Bureau should not become a superagency domineering and directing all other executive agencies.

I would appreciate it if this letter could be given consideration by your subcommittee in connection with your deliberations on these bills and also incorporated in the record of the hearings thereon.

Thanking you for your cooperation, I am,

Sincerely yours,

MILES D. KENNEDY, *Director.*

Chairman DAWSON. I understand that we will have to close at this hour. I am going to ask that the Comptroller of the Defense Department come back to us, because I think there were some things said here that he would like—judging from your faces and your actions—to take up. You will be notified of the time of the next hearing.

If there are no further questions, or statements that you would like to make, we will stand adjourned until further notice.

(Whereupon, at 12:45 p. m., the hearing was adjourned.)

BUDGET AND ACCOUNTING

TUESDAY, JUNE 12, 1956

House of Representatives,
Executive and Legislative Reorganization
Subcommittee of the Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 1501 New House Office Building, Hon. William L. Dawson (chairman of the full committee) presiding.

Present: Representatives Dawson (presiding), Fascell, Jonas, and Brown (Ohio).

Also present: Representatives Hoffman (Michigan) and Lipscomb; William Pincus, associate general counsel; Elmer W. Henderson, subcommittee counsel; and Ann E. McLachlin, clerk.

Chairman Dawson. The subcommittee will come to order.

Today our subcommittee will continue its hearings on H. R. 9402 and other budget and accounting measures which we have considered.

Since our last hearing we have received a new bill, H. R. 11526, introduced by Congressman Rogers of Florida. This bill also deals with budget and accounting procedures.

(H. R. 11526 follows:)

[H. R. 11526, 84th Cong., 2d sess.]

A BILL To improve governmental budgeting and accounting methods and procedures, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

Section 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting "(a)" after the words "Sec. 201.", by changing subsection (a) to subparagraph (1); by adding after subparagraph (1) a new subparagraph "(2) at such times as may be practicable, information on program costs and accomplishments"; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively; and by adding the following new subsections:

"(b) The amounts of proposed appropriations referred to in sections 201 (a) and 203 of this Act shall, to the maximum extent deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis.

" 'Annual accrued expenditures' shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

"This subsection shall not apply to appropriations made specifically for the payment of claims certified by the Comptroller General and of judgments; appropriations for the refund of Federal taxes and of other moneys erroneously received and covered into the Treasury of the United States; appropriations made by private relief Acts of Congress; appropriations for the payment of interest on trust funds; revolving funds or appropriations thereto; appropriations for the

payment to former members of the Armed Forces, their dependents and beneficiaries, of any benefits to which they are entitled by reason of military service; appropriations for the payment of pensions and annuities; appropriations for the payment of any obligation of the United States for which liability is fixed by treaty; and other appropriations or funds analogous to the foregoing.

"(c) The conversion to the use of annual accrued expenditures for stating proposed appropriations in accordance with section 201 (b) of this Act shall be accomplished in such manner and at such times as may be determined by the President.

"(d) As of the end of each fiscal year, the excess of any appropriation or fund made on an annual accrued expenditure basis over the accrued expenditures under such appropriation or fund shall lapse, unless hereafter provided otherwise in an appropriation Act or other law. Any remaining balances of each such appropriation or fund shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year and shall constitute a single account."

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216." and by adding the following new subsections:

"(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATIONS

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency on accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such Act is amended by inserting "113 (c)" after the words "section 111".

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

Chairman DAWSON. We are happy to have Congressman Rogers appear before us today.

Congressman Rogers.

STATEMENT OF HON. PAUL G. ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. ROGERS. Thank you.

Mr. Chairman, and distinguished members of the committee, it is a privilege to appear before you today urging favorable consideration of H. R. 11526, which I introduced, to improve budget and accounting procedures in the Federal Government. I know that you, as members of this most important House committee investigating the operations of our Government, are continually looking into ways to refine our Government operations and to reduce the costs of our Government.

H. R. 11526, which implements most of the recommendations of the Hoover Commission for changes in the Government's budgeting and accounting procedures, would not only reform and improve our accounting system by placing our Government accounting and budgeting processes on a more realistic and orderly basis, but it has been estimated that it would also result in an annual savings of $4 billion when fully effective.

Chairman DAWSON. Do you think that is important?

Mr. ROGERS. I think that is very important, Mr. Chairman, I surely do, and I know this committee feels the same way.

Mr. HOFFMAN. In view of your statement, would you add that $4 billion, if we save it, to our foreign-aid appropriation?

Chairman DAWSON. No; we will reduce the taxes on the little fellow.

Mr. HOFFMAN. You would not vote more foreign aid?

Chairman DAWSON. We would raise tax exemptions.

Mr. ROGERS. As I am sure this committee realizes, we have a backlog of unexpended authorizations in the amount of almost $80 billion and I think all of us realize the lack of control that this situation brings about.

I believe that the provisions of this bill are sound and necessary and will enable the Congress to regain effective control over governmental expenditures. We do not now have this control because appropriations in any one year may be spent over several years and appropriations do not necessarily match expenditures in the same year.

H. R. 11526 would require that Government agencies prepare their budget estimates on an accrued annual expenditure basis and that budgets be prepared on an accrued cost basis.

President Eisenhower and the Director of the Bureau of the Budget have given strong endorsement to the recommendations of the Hoover Commission in this field, which recommendations are carried out in H. R. 11526, and in S. 3897, which is the companion bill, and which the Senate Government Operations Committee approved last week.

This measure proposes changes in executive branch accounting and formulation of budget requests for appropriations, and it proposes changes in congressional authorization of the expenditure of money on Federal programs.

It would place the entire governmental financial structure on an annual accrued-expenditures basis, as opposed to the obligation system now in operation. It would permit a much closer supervision by Congress over the expenditures of the executive branch of the Government and would provide for the top management of the executive branch a more complete and more meaningful understanding of the financial operations of the Government.

Almost all major private corporations have adopted this system of budgetary control, and the Hoover Commission's report indicates that this system can profitably and effectively be adopted by the Federal Government.

The changes which are proposed are generally stated in "where and as practicable" terms. They are not of as much consequence to agencies which spend money primarily for administrative and operating purposes such as employee services, travel, rents, utilities bills; and which now are granted appropriations that remain available for incurring obligations only during a specified fiscal year. The changes are more substantial for agencies that are engaged in construction or purchase of equipment in large volume, and which require appropriations to be available for obligation over a period that is longer than 1 fiscal year.

For the latter sort of department or agency, the bill would introduce practices that are essentially different from those now followed. Money would be provided by Congress only for 1 year's accrued expenditures; contracts for work in excess of 1 year would be authorized but the money would not be provided for more than 1 year at a time.

At the present, the contract authorization is little used, and money is appropriated for incurring obligations not only in 1 year but over a greater period, the duration of which may be either definite—multiple-year—or indefinite—no-year.

Two differences are to be noted: A proposed 1-year-at-a-time appropriation, contrasted with multiple or indefinite years; and appropriation for accrued expenditures rather than obligations.

As implied in the remarks of an earlier paragraph, accrued expenditures and obligations incurred do not differ for some important objects, such as employees' services, travel, and communication, utilities bills, rents, interest, pensions, claims, investments. But accrued expenditures do differ from obligations incurred for land and structures, equipment, supplies, and materials, grants, subsidies, and contributions.

Expenditures accrue when goods and services are received, or generally, when title passes to the Government. Accrual includes the occasions when performance on a contract is accepted for the purpose of progress payments that are made before the completion of the entire job.

Obligations are incurred, on the other hand, when orders are placed and contracts are awarded. The accrual of expenditures differs from the incurral of obligations, when it differs at all, in coming at a later point in the process of the Government's procurement.

The significance of the difference between expenditures and obligations is this: If appropriations are limited to the year's accrued expenditures rather than the authority to obligate—whether or not obligations are incurred—then the Congress keeps much shorter the time that elapses between its authorization of the expenditure of funds and the actual expenditure of the funds. The process of review of accomplishments is made more immediate.

The bill requires that appropriation requests be in terms of accrued expenditures. It requires also that requests be built up from accounts of costs, and that measurements of performance be shown. These requirements are consistent with making appropriations in terms of

accrued expenditures, but costs may diverge from expenditures. If the costs incurred in the year, rather than the obligations incurred, are summarized in building up appropriation requests, accounts of such assets as inventories and of fixed properties will be needed.

These assets may be used and so become costs in years additional to, or other than, that in which they are purchased. The actual cost of getting the benefits of the Government's programs can be ascertained only if cost accounts which reflect changes in inventories, depreciation, and so on, are developed.

In summary, Mr. Chairman, the provisions contained in this bill are designed to accomplish two broad objectives: (1) Improve financial administration in the executive branch, and (2) substantially strengthen congressional control over the financial affairs of the Federal Government. It is my strong feeling that the provisions of this measure are sound, and I urge their favorable consideration by the committee.

I want to thank you again, Mr. Chairman, for allowing me the opportunity to appear before you and testify on this legislation.

Chairman DAWSON. Mr. Hoffman.

Mr. HOFFMAN. What are the principal differences between that bill, your bill, and H. R. 9402?

Mr. ROGERS. By Mr. Lipscomb?

Mr. HOFFMAN. Yes.

Mr. ROGERS. I don't think there are too many great differences, Mr. Hoffman. I think you will find that there is some difference, however—mainly the number of items which are in Mr. Lipscomb's bill. I think most can be handled by administrative processes, such as setting up staff members and accounting offices in the various departments. H. R. 11526 provides for a cost accounting and accrual basis budget to go into effect.

I don't think that there are a great many differences. It is just felt that it is going to take some time for the switchover to come about, and there should be some flexibility in the program on the part of the President and the executive branch of the Government to put into effect these changes.

I think you will find that the President and the Bureau of the Budget feel that there should be some flexibility and that all of the decisions necessary to carry out what we want to accomplish must not necessarily be placed in the bill. They can be accomplished and are being accomplished, by administrative processes.

Mr. HOFFMAN. I notice on page 12 of the statement by the Department of Defense, the third paragraph:

> The Chairman of the Hoover Commission Task Force on Budget and Accounting has told you that the Department of Defense has made improvements in financial management, and some of them have been mentioned in the task force reports to the Hoover Commission, including that on business organization.

Now, this:

> But it apparently did not appreciate the full magnitude and scope of the improvements and the nature of a complete system required.

What comment, if any, have you on that?

Mr. ROGERS. Well, of course, this is the first time I have heard that. I don't know offhand exactly what it is referring to there. I presume that the Defense Department, as soon as the President makes known

his wishes in the matter, and the Bureau of the Budget are set up where they can certainly work together to carry out the ultimate objectives of this bill, and I think for us to try to say in legislation every little detail that must be put into every department would be a mistake.

Mr. HOFFMAN. I assume we have the overall and statutory—not statutory—the belief of Congress that there should be economy and more efficiency, but we don't get it.

Mr. ROGERS. Well, I agree with your statement, Mr. Hoffman, and I think this is an attempt to try to get a closer control on funds. That will allow us to have a year-by-year control, which is definitely needed.

It will eventually, we hope, do away with this big backlog of unexpended authorizations which now amounts to about $80 billion.

Mr. HOFFMAN. You think this bill, and also the bill by Mr. Lipscomb, would take care of that situation?

Mr. ROGERS. I feel that this will, eventually. It will take some time, definitely, to do this. In fact, I imagine it will take around, I would say—somewhere around—5 years to even partially accomplish all the objectives of putting this system into effect. I would think that would be about the time that would be necessary, Mr. Hoffman, because it is going to take a great deal of work, there is no question about it.

They are going to have to change a great deal of their accounting procedure in getting on this cost basis.

When they come up to Congress with a request, you can say, "Well, what was the cost of this item last year?"

Suppose we grant authority for a ship to be built. Maybe they want to make plan changes. Well, at the end of that year they are going to have to come back and let us know what the changes are that are being made, or whether they made the right decision. We are going to see where savings can be effected or, if a mistake has been made, if we are not getting what we are supposed to for our money, those contracts can be cancelled at that time, rather than waiting at the end, when it is too late to do anything about it.

Mr. HOFFMAN. Is it your opinion that sometimes—you referred to a ship. They will ask for a little ship, and before they get through it's a big ship.

Mr. ROGERS. I think that is true. I would not doubt it at all. I don't make that accusation; actually I don't know, but I am sure they have changes in their plans.

Mr. HOFFMAN. But they can do it. It is possible.

Mr. ROGERS. I don't know that they could necessarily change from a little ship to a larger ship, but we know——

Mr. HOFFMAN. Well, from a little ship to a larger ship.

Mr. ROGERS (continuing). That they can bring about modifications, I think we know that, and merely ask for additional money later on.

On public-works projects, for example, they start in on a public-works project that may be estimated to be $100 million, and by the time they finish, as you know, it is up to $300 million.

This will give us a closer control on all of that, to see if the right decisions are being made right along.

Mr. HOFFMAN. Well, would this take care of, if it exists, the alleged practice—I think I can say alleged practice—of the departments when

they have unexpended balances on hand rushing out and entering into contracts?

Mr. ROGERS. Yes, sir; I think it will. I think that will definitely preclude that.

Mr. HOFFMAN. And would it require the department to tell us, each time it comes before the Appropriations Committee, just how much money they have on hand in unexpended money in the same fund for which they are asking new money?

Mr. ROGERS. Yes, sir.

I think this would give us a very strict control in the budgetary processes of the Government. I think this will enable us to know each year the cost of running the department.

Mr. HOFFMAN. How long have you been in Congress?

Mr. ROGERS. Sir, this is my first term.

Mr. HOFFMAN. Well, I think the fellow that comes in knows more the first 2 years, perhaps—well, I would not say that they know more, maybe I better qualify that—but they come fresh from the people and they have a more, shall I say, present idea of what the people want than some who have been here longer.

I have been here a little longer than you have, and sometimes I get confused as to just what the departments are doing and I forget what the people want.

Mr. ROGERS. Well, Mr. Hoffman, I do think it is essential that Congress obtain greater control of the budgetary processes of our Government. I think it is imperative, and I believe this bill will help bring that about.

Mr. HOFFMAN. I hope you continue in that belief.

Am I right in assuming that you have been somewhat shocked by the knowledge you have had of the way the money is spent?

Mr. ROGERS. Well, I will say this, Mr. Hoffman: When I first came to Congress, I had no idea that there were unexpended funds——

Mr. HOFFMAN. Something in the kitty held back.

Mr. ROGERS (continuing). In the amount of $82 billion. When I came here, it was $82 billion.

Mr. HOFFMAN. Well, you know now how much there is on hand in these various departments unexpended, unobligated?

Mr. ROGERS. Yes, and that is why I am interested——

Mr. HOFFMAN. You say it is $82 billion?

Mr. ROGERS. I believe it is about $80 billion now, $79 billion to $80 billion.

Mr. HOFFMAN. Where did you get that information?

Mr. ROGERS. We got it from the governmental departments, Mr. Hoffman.

Mr. HOFFMAN. I have never been able to learn with any degree of accuracy.

Mr. JONAS. Will the gentleman yield?

Mr. HOFFMAN. Yes.

Mr. JONAS. I suppose all the criticism should not be directed to the departments. As I recall, last year Congress repudiated its Appropriations Committee and added a couple of billion dollars to the public works bill on the floor.

Mr. HOFFMAN. That was not an election year, either, was it?

Mr. JONAS. It had not been budgeted, it had not been approved by the Bureau of the Budget, it had not been screened by the Appropriations Committee.

So, maybe, we ought to take a little look at some of our own procedures at the same time.

Mr. HOFFMAN. What you are referring to is that old practice of logrolling.

Mr. JONAS. Well, I did not want to characterize it.

Chairman DAWSON. There is no logrolling.

Mr. HOFFMAN. No; just a trading of your support for my support, so we both get what we want.

Chairman DAWSON. I would say that the Congressmen are close to the people, and they felt the people needed it and they appropriated it. The House sometimes gets unruly and may take matters into their own hands because they appreciate that maybe they have heard recently from the people on it.

Mr. HOFFMAN. You mean, they have been prodded.

Chairman DAWSON. No; in righteous indignation, I would say. They raise up in righteous indignation.

Mr. HOFFMAN. Who—the people, or the Congress?

Chairman DAWSON. The Congress, the membership.

Mr. HOFFMAN. Well, I hope you retain your ideas and your desire to say that things—what business were you in before you came here?

Mr. ROGERS. I was a lawyer, Mr. Hoffman.

Mr. JONAS. Mr. Chairman, I would just like to say I am sorry I was late. I know Mr. Rogers very well, and I know his great interest in these subjects and I wish I had heard his statement in full. I will read it in the record.

I appreciate very much your coming to the committee and explaining the bill. I know it has great merit. It will receive careful consideration at the hands of the subcommittee.

Mr. ROGERS. Thank you, Mr. Jonas. I appreciate that.

Chairman DAWSON. Mr. Lipscomb.

Mr. LIPSCOMB. Mr. Chairman, I appreciate being able to participate. I also want to compliment Mr. Rogers on his statement and say that I certainly concur with the thoughts expressed.

I believe his bill does supplement and add some additional language to H. R. 9402, but some sections of H. R. 9402 are omitted in H. R. 11526, and I am still of the belief that more sections should be included to accomplish the purposes that were intended to be accomplished by the Hoover Commission toward improving our budget and accounting system in the Government.

I realize that H. R. 9402 does cover some things that can be put into operation through administrative orders and Executive orders, but they haven't been done at this time, and I still say that Congress should take some action in declaring the intent of Congress as to what they would like to see done in the governmental agencies.

Mr. Rogers made an excellent statement, and I compliment him on it.

Chairman DAWSON. Do you agree that his bill will set up methods better than those now in operation?

Mr. LIPSCOMB. Yes, sir; I do. I feel that H. R. 9402 does essentially the same thing as H. R. 11526 does, except, I believe, that they

have included language in H. R. 11526 that will be more helpful. It will bring about a speedier action, I feel, toward cost accounting and an accrual basis budget, and I believe H. R. 11526 is a good bill, if that is as far as the Congress desires to go at this time.

Chairman DAWSON. It is for this committee to determine what kind of bill we are going to bring out.

Mr. HOFFMAN. I would like to ask Mr. Lipscomb at this point to put into the record, in view of his report made the other day in the committee of which you and I are members, I would like to have him put in a little of his background to show that he knows what he is talking about.

Sometimes it is suggested that Congress doesn't know what they are talking about, when they have a background which indicates that they do know just exactly what they are talking about.

Mr. LIPSCOMB. What I have done in the past, sir?

Mr. HOFFMAN. If you will put that in the record with your statement.

Mr. LIPSCOMB. Verbally now?

Mr. HOFFMAN. I don't care if you put it in now or put it in the record.

Mr. LIPSCOMB. I have been in the public accounting business. That was my profession before I came to the Congress. I began private practice as a public accountant in 1939, and then I was elected to the California Assembly in 1947 and served on the assembly committee on revenue and taxation, a counterpart of the House Ways and Means Committee, in the State legislature; the assembly committee on finance and insurance; the assembly committee on public health; was chairman of the assembly committee on government organization; and was chairman of the joint senate-assembly committee on governmental reorganization, commonly known as the Little Hoover Commission, in the State of California, on reorganization. I handled similar legislation within the State legislature as we are handling in this Committee on Government Operations.

Then, after I came to Congress, I became even more interested in this subject, and have just completed, with our chairman, Mr. Dawson, a study and report on the United States General Accounting Office.

I believe that there is a slight relationship between private accounting and governmental accounting. However, there are also a great deal of differences that I feel all people should recognize. However, although the problems are not the same, the basic principles are to get the facts and figures not only to the members of the legislative branch but to the people.

I have come to realize, as Mr. Rogers indicated also, I believe, that the legislative branch and the executive branch have a great deal of difficulty in getting from the agencies and departments the actual facts and figures so that the budgets that we vote on can be surveyed and voted upon properly. I don't believe—and I have come to realize this particularly since coming to Congress—that we have been given adequate budget justification so that we can intelligently vote upon the figures that we are going to use to run the Government.

Somehow or another I get the impression—and I don't like to use the word—that a lot of Congressmen are "snowballed" with prepared statements on programs and justifications.

Therefore, that is why I believe that legislation such as this which will bring more adequate information on financial figures to the Con-

gress should be enacted, so that the Congress can better evaluate what they are voting upon. That is why we need legislation of this kind.

Mr. HOFFMAN. Is it like this? You mean that Congress is in somewhat the same position that a parent would be when the small boy comes and asks for some money to go to the circus or to the fair. He wants so much, but he doesn't tell you how much he has got in his pocket before he starts out.

Mr. LIPSCOMB. There may be some resemblance to that.

Mr. HOFFMAN. So neither the parent nor the Congress knows how much they ought to have?

Mr. LIPSCOMB. That is right.

I do believe that the legislative branch has been somewhat lax in not following closely the expenditures of government and the budgetary process. I understand that everybody is busy with the many other types of pending legislation and that the Appropriations Committee has initial jurisdiction over such things, and the members of the Appropriations Committee have great knowledge of what is going on in government, but I do feel that other Members of the Congress have been somewhat lax because of their other great duties in not keeping closer in touch with governmental budgeting and accounting matters.

One of the very basic things, I feel, in the operation of our Government is its financial management. A great deal of our troubles come from the financial management in its relation to taxes, right up the line, and, therefore, the more emphasis we put on financial management, I think, the better off we are going to be in the long run.

Mr. JONAS. Would you yield right at that point?

Mr. LIPSCOMB. Yes.

Mr. JONAS. I think I would agree with much of what you said. Having served on the Appropriations Committee, I know some of the problems from that angle also.

Now, how, under either of these bills, would a Member of the House who does not serve on the Appropriations Committee, how would he obtain more budgetary information under these bills than he can obtain now?

Mr. LIPSCOMB. I think the figures that will come up will bring about a budget that the Members of Congress will perhaps be able to read.

At the present time a Member of Congress can pick up a budget and look at one agency—and I am thinking of a simple one now, and that is the Government Printing Office—and try to reconcile what it costs the Government Printing Office to operate and how much money we have to appropriate, and a Member of Congress finds it impossible to look into it.

I believe it will bring about a better and more comprehensive budget which can be read easily and can bring about justifications that will be included in the hearings that the Members of Congress can read and understand, instead of having so many pockets that you cannot put your finger on any particular one and determine what is in that agency; it will kind of bring it down to fewer accounts, fewer pockets.

Chairman DAWSON. Mr. Henderson.

Mr. HENDERSON. I have nothing.

Chairman DAWSON. Mr. Pincus.

Mr. PINCUS. I have just one, Mr. Chairman.

Following up, I think, on something suggested by Mr. Jonas, I think this bill has great promise of improvement, but I wonder essentially what difference there would be from the present situation. If we take, for example, an appropriation for the construction of a large hydroelectric flood-control dam, and the Congress appropriates, let us say, $5 million for the initial investment of acquiring certain land and making certain initial improvements, and then the thing would take about 5 years or more to complete.

Then, after a certain amount of money has been appropriated and spent, is the Congress going to be in any different position under the procedure, Mr. Rogers, than they are at present? Are they going to cut off the appropriations for the dam after it has been half constructed, let us say?

Mr. ROGERS. Well, I don't know that they will cut off the appropriations, say, after it is half constructed. I presume they probably would not, but suppose in your planning of the dam your planning is not done in the first or second year. You don't expend that $5 million in the first year or the second year.

We want to know why that is not done, why they needed it at that time. They are going to have to come in each year and tell us, not at the end of 5 years, and then tell us what they have done with the money.

The original decision may have been a wrong decision. They may later find out why it was a wrong decision. So, in submitting the next budget, which has got to be on a yearly basis, they are going to have to justify it each year, you see, rather than at the end of the 5-year period where they have got $5 million appropriated for 5 years, say. At present, they can use it any time within that 5 years before they come back to the Congress.

Under H. R. 11526 they are going to have to come back each year and tell us about it—stricter control and better governmental agency control.

Mr. PINCUS. You have more frequent and more detailed justifications of the same information that is now available to the Congress, I think.

Mr. ROGERS. Well, I don't think it really is available to the Congress, in effect. It really is not available until the end of that 5 years.

Chairman DAWSON. Mr. Brown, this is our colleague, Mr. Rogers, who has introduced a new bill since our last meeting, and he has been testifying as to the merits of his bill. He has been questioned by the Congressmen and the staff.

Do you have some questions?

Mr. BROWN. I have nothing at this time.

Mr. JONAS. May I make a comment before we leave that point, Mr. Chairman?

Chairman DAWSON. Yes.

Mr. JONAS. There certainly is much to be said in support of the comments you have made about our finding, when we get into the middle of such programs, that they are costing much more than the original estimate. I served on a committee last year in which we were considering some of the power problems in the Southwest, and it came out in those hearings that some of the dams that had been constructed turned out to cost over 55 percent more than the original estimates.

I don't know why that should have been so, or why we did not have better control over ultimate costs when the projects were authorized, but it was really fantastic to read some of the figures of the increased costs over original estimates in the construction of the projects.

Mr. BROWN. Will the gentleman yield?

Mr. JONAS. Yes.

Mr. BROWN. That is not an unusual situation. The Hoover Commission made a study of that situation, and they found it was invariably the rule.

I think it is probably because of the fact that underestimates were submitted in order to get Congress to approve. Then, once Congress is sucked in, and it is started, it has to be finished.

There should be some method found, Mr. Chairman, in my opinion, to more definitely fix costs on some of these projects.

Mr. LIPSCOMB. Mr. Chairman, may I add something there?

The Corps of Engineers in its civil-works functions at the present time is already starting on this accrual base accounting, and the double-entry bookkeeping system, I believe.

Chairman DAWSON. Mr. Rogers, I want to compliment you on your statement and the manner in which you presented your bill to us.

I want to invite you, if you have the time, to stay with us and ask questions. We are going to have the Assistant Secretary of Defense, the Assistant Director of the Budget, and the Assistant to the Comptroller General testify on your bill, and we invite you, if you can, to stay with us and question as you think the testimony would indicate.

Mr. ROGERS. Thank you, Mr. Chairman. I would appreciate that privilege.

Chairman DAWSON. The next witness will be the Honorable W. J. McNeil, Assistant Secretary of Defense.

STATEMENT OF W. J. McNEIL, ASSISTANT SECRETARY OF DEFENSE (CONTROLLER); ACCOMPANIED BY MAURICE H. LANMAN, JR., ASSISTANT GENERAL COUNSEL (FISCAL MATTERS); HOWARD W. BORDNER, DEPUTY CONTROLLER FOR ACCOUNTING POLICY; AND DR. LLOYD MOREY, FORMER PRESIDENT OF THE UNIVERSITY OF ILLINOIS, CONSULTANT ON ACCOUNTING POLICY TO THE DEPARTMENT OF DEFENSE

Mr. McNEIL. Mr. Chairman, we appreciate this opportunity to appear before your committee to present the views of the Department of Defense on these two important bills, both of which are based upon recommendations of the Hoover Commission and have as objectives the improvement of financial management in the Federal Government, including congressional control of expenditures.

We are glad that your committee is making a careful study of these bills.

I might add I think you are dealing with a rather involved subject and one that is worthy of very careful study.

Our views, which follow, are briefly summarized from our comments to the Bureau of the Budget on the recommendations in the Hoover Commission Report on Budget and Accounting. Copies of the comprehensive views of the Department of Defense on all the Hoover

Commission recommendations on this subject are available, and you may wish in the interest of time to place them in the record.

In general, most of the following proposed provisions of H. R. 9402 may be implemented within existing legislation. As a matter of fact, some of these policies and principles are stated already for the Department of Defense in title IV of the National Security Act, as amended.

The two bills contain certain provisions which are substantially alike. I believe it might be helpful if we comment on both bills before the committee.

We shall first discuss H. R. 9402, the earlier bill, except for those provisions which are common to H. R. 11526. In order to eliminate duplication, we shall cover later only once the provisions which are common to both.

Our comments follow, item by item, for the special provisions of H. R. 9402 which are not contained in H. R. 11526:

(1) Establishment of certain central reporting responsibilities in the Bureau of the Budget (sec. 1 (a)).

(2) Requirement for periodic performance reports of each department and agency, as well as for the Government as a whole (proposed new sec. 216 (b) of the Budget and Accounting Act contained in sec. 1 (b) of the proposed bill).

The two foregoing provisions would implement recommendations 2 and 22 in the Hoover Commission Report on Budget and Accounting.

We would be glad to cooperate in implementing the major reporting requirements of the bill, whether or not required by law. It is suggested that if this provision of the proposed section 216 (b) of the Budget and Accounting Act is adopted that it not include detailed specifications of frequency or timing of reports. For example, performance reports are being submitted monthly, quarterly, or annually in the Department of Defense, according to program, as may be appropriate.

(3) Require assignment of personnel by the Bureau of the Budget to serve in each principal department and agency to independently review the preparation and administration of their budgets (sec. 1c of the bill). Re recommendation 1 of the Hoover Commission.

Personnel of the Bureau of the Budget have long been assigned to work regularly with the Department of Defense. The results, on the whole, have been constructive and beneficial to all concerned. We believe in continuance of this practice, with maintenance of the independent status of the Bureau's representatives. We do not believe, however, that this practice should be required by legislation. If it were to be required by law, the Bureau should not be restricted as to number or qualifications of the personnel to be assigned.

Chairman DAWSON. Why should we not require it by law instead of leaving it to the will of the administrator, when the facts show that it has not been done in the past? The Hoover Commission report so states, and these bills have pointed that out and are aimed at curing it.

Mr. MCNEIL. It has happened, Mr. Chairman, in the Department of Defense since 1950, and even before that, although it has been a well worked out and well planned, consistent program, since 1950. So, it actually is happening right now, and has been for years.

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Chairman DAWSON. The Hoover Commission findings on which they base their recommendations were wrong?

The findings of the task force were that these things did not exist, and that legislation or means ought to be taken to put them into operation.

Mr. Brown of the Hoover Commission is here, and that is why I raise the question.

Mr. NcNEIL. Regardless of that, sir, I think you would find that it has been a well planned, consistent program, carried out since 1950 without a break.

Mr. BROWN. Even if the Department of Defense is doing this, what would be the harm of saying: "Inasmuch as it's good for the Department of Defense, it's good for other agencies of the Government"?

I realize you have a greater problem in the Department of Defense. That is where the big money goes.

Mr. McNEIL. We found it very helpful. I do think it is important that they retain their independent status.

I personally believe it would be better if the President and the Director of the Bureau of the Budget were free to assign them or send them, or to do whatever they please, as an independent auditor approach, rather than to require assignment of personnel regularly. I believe there is some advantage to it.

Mr. BROWN. What we are trying to do in this legislation, as I understand it, is to fix the policy, more than to bind down just how many and who should be there. We leave it up to the administrative branch of the Government to decide, and the Chief Executive and others under him, to see how many are needed.

We fix a policy that ought to apply right across to everybody.

Mr. McNEIL. As I read the bill, sir, I thought the requirements were a bit specific as to numbers.

Mr. BROWN. Well, this is a legislative bill that is just simply now being considered in this committee. We might not have all the provisions when we finish that were contained when it was introduced.

Mr. McNEIL. It was in that spirit that I was offering my comments.

Mr. BROWN. I would agree if it works well in the Department of Defense that it ought to work in other departments, also. The situations or conditions might be a little different.

Mr. McNEIL. I have felt that it is very important that they maintain an independent position.

This may sound strange for a bureaucrat to say, but I have felt that it is helpful that they do that.

Mr. BROWN. May I say to you, Mr. McNeil, many Representatives of the people feel sometimes that a great many agencies of the Government are just too independent, that perhaps we ought to require some things to be done by law, as well as just by whim or fancy, because men change. Laws should remain constant, and the rules of conduct for those in charge of our Government business ought to be fixed by the policymaking body under the Constitution, the Congress of the United States.

Do you agree with that statement?

Mr. McNEIL. Well, yes, but when I said "independent," I meant that I think the role of the auditors, just as a general principle, should be independent of the operator. That is all I had reference to in using the word "independent."

Turning to this bill, for example, the language is:

Not more than two persons for each principal subdivision or department or establishment.

Well, I think about 17 in the staff of the Bureau of the Budget devote free time to matters affecting the Department of Defense.

Mr. BROWN. I agree that you have a different problem in the Department of Defense than you have in any other agency or department of the Government, because it is a much larger problem, but the principle is the thing that I am trying to get at, to find out whether you agree with the principle.

Mr. MCNEIL. Well, as I mentioned to the chairman a moment ago, we have been doing it regularly, consistently, week in and week out, and I think it has been helpful to them. They have made suggestions that we have been able to follow.

Mr. BROWN. Has it been a good and helpful thing for those forgotten people called the taxpayers?

Mr. MCNEIL. That is the viewpoint that I am trying to take in an approach to this problem, sir.

Mr. BROWN. Have you found that it has resulted in some economy and greater efficiency?

Mr. MCNEIL. Yes; because of their semi-independent view.

And, we have endeavored to work as closely together as we could and yet not compromise their position, if you understand what I mean. We have telephones ringing constantly and many things to do hour by hour, and they have a little more of a detached position, and, frequently, they have suggested things that, frankly, as close as we are, we haven't seen.

I would like to think that when they made those suggestions and we could possibly do something about it, we strive to do it, and I think that is true in the Army, Navy, and Air Force.

Mr. BROWN. May I say to you, sir, and to the committee, that I have had the opportunity in the past 2 or 3 years to know quite a good deal of the work you are doing, and that you hold one of the most important positions and posts in the entire Federal Government, not only in the Department of Defense, but in the entire Federal Government, because you have your fingers on the pulse for spending great sums of money, and I am happy that you feel this sort of approach is worthwhile.

Mr. MCNEIL. May I say something, Mr. Brown. This may sound like a strange remark.

I believe that—and I know there are more and more people in the Department of Defense, military and civilian alike, that believe that—if the Department of Defense can do a good job for Uncle Sam and through that means develop and maintain the confidence in the country—that we are doing a decent job—we have a chance to preserve for some time the necessary strength during this period of tension we are in.

So, in a sense, we have, because I like to think we are good citizens, and, second, I believe there is a little bit of a selfish feeling that if we can do a good job, the whole country will benefit, and so will we.

Mr. BROWN. I am glad to know that attitude, but I want to reiterate, if I may, that the Constitution of the United States places the prime responsibility on the Congress, not upon the President or upon the Secretary of Defense, to maintain our national defense and finances.

So, we cannot escape that constitutional responsibility, and, sometimes when we make a few inquiries and perhaps seem a little critical, I am sure you understand that we are trying to meet our responsibilities as well as you gentlemen are trying to meet yours.

Mr. McNeil. I do; and you people in the Congress have a grave responsibility in this whole thing.

Chairman Dawson. Would you just state for the benefit of the record, your background and service? You did not do that in the beginning, and I am sure that we would all want to hear it.

Mr. McNeil. Prior to World War II, after getting out of the Navy in World War I, I was in banking, in the automobile, and the newspaper business.

Then, from the beginning of World War II, I was in the Navy and in 1945 I was released from active duty and stayed on with Mr. Forrestal, who was Secretary of the Navy, and when he became Secretary of Defense I went over with him at that time in the money side of the business, and have been in the same general work for Secretary Johnson, Secretary Marshall, Secretary Lovett, and Secretary Wilson.

Chairman Dawson. I certainly want to compliment you on your years of service.

Mr. McNeil. Thank you, sir.

Mr. Jonas. Mr. Chairman, before you leave that point.

Mr. McNeil, would it meet your objection to this section, to cut it off in the middle of line 18, ending with the word "responsibility"?

Mr. McNeil. I think that would be a vast improvement, sir. It would certainly indicate a policy——

Mr. Jonas. I can see why Congress might well wish to have Budget Bureau representatives assigned officially to the departments to further carry out their responsibilities, but I can also see some virtue in your suggestion that Congress ought not to spell out the number and the titles of the individuals that have been so assigned.

I just wondered if your principal objection did not relate to the details of the requirement rather than to the broad principle involved.

Mr. McNeil. Well, I believe the representatives of the Bureau of the Budget should, I think, speak to this point, but I believe that in the Bureau of the Budget they do have examiners, in effect, assigned to different agencies.

Now, in many instances I believe they remain in the Bureau of the Budget, but through hearings, field trips, and so forth, take care of their examination of estimates.

Of course, the Department of Defense is a bit more involved and complex. Starting about 1950, the old practice—while they always had a group assigned to our agency in the Bureau—was changed because they felt, and we felt, we could get more suggestions and improvements could be made if they were, you might say, living in the building, not necessarily having desks there but coming over day after day and going almost anywhere they chose, because we would like to operate on an "open safe" policy as far as the Bureau is concerned. We felt that they could have a more intimate knowledge of our problems as well as our mistakes and weaknesses.

Mr. Jonas. One advantage would be in having some continuity of ideas, would it not?

Mr. McNeil. There has been continuity. I think Mr. Schaub, who is head of the Military Estimates Branch, has been in the same field for 11 or 12 years. For about 4 or 5 years he handled the Navy branch, and then, when the Department of Defense came into being, he was in charge of that division.

Mr. Jonas. There is a danger of one individual being continuously assigned to a department. He may become infected with some of the prejudices or some of the policies or points of view of the department, instead of having that objective approach as an independent person ought to have.

Mr. McNeil. I think there could be on one person, but when they have 17, no; and that is, I believe, about the size of the staff.

Mr. Brown. May I intervene long enough to ask whether in your opinion the budgets submitted after these examinations, and so forth, for the Defense Department and its various military branches, have always been realistic and worked out any way close to their actual needs?

Mr. McNeil. I think, Mr. Brown, they have been getting much better in the last several years.

May I give you, in terms of dollars, a measure of what has been done in the Department of Defense, with the assistance and subject to later review, to the extent they choose, of the Bureau of the Budget?

In 1951 the original estimates submitted to the Secretary of Defense by the Army, Navy, and Air totaled about $104 billion for that year. This was worked out in the Department to $60 billion.

Mr. Brown. Reduced from $104 billion to $60 billion?

Mr. McNeil. Yes, sir.

In that year the Congress provided $60 billion after about 12 weeks of hearings on the subject.

In the following year the original submissions were $83 billion, and the amount provided that year was between $47 billion and $48 billion, and there was an adjustment by Congress of something less than one-half billion after again about 12 weeks of hearings in the House.

I would like to say this as an aside. The House Committee on the Military does, I think, a more thorough job than many people think they do. The hearings begin usually in late January or early February and continue through April, from morning until late afternoon.

Mr. Brown. Is that on the authorization bills or on the appropriations?

Mr. McNeil. I am speaking of the appropriations. They work straight through during that whole period, 5 days a week, occasionally on Saturday, from Monday until Friday from morning until evening, not just a half-day session.

And then, I think we are fortunate, and perhaps the Congress is fortunate, in that many of the members of that committee have been on assignment from 15 to 20 years. So, they are not unfamiliar with what has happened and what is going on.

As I say, I think it is helpful to us, I think it is helpful to the country that they do have that much background and experience.

Mr. Brown. Of course, we all appreciate the fact that both war and defense are very wasteful and extravagant things, but in sptie of all the pruning which you mentioned has been done, certain subcommittees of the Armed Services Committee have turned up some horrible examples of waste and extravagance in the military services.

Mr. McNeil. That is correct.

Mr. Brown. And in connection with your budgeting and accounting, do you ever find any of that yourselves, or eliminate that waste and extravagance?

Mr. McNeil. Yes, sir.

I thought Mr. Wilson put it rather well in a committee hearing recently when he said:

> As far as we are concerned, Ivory soap isn't good enough. We can do well 99 percent of the job, but 1 percent not satisfactory makes us look pretty terrible.

We are not perfect. I would be the last one——

Mr. Brown. Let me change that.

There is every evidence, as a result of a study of the Hoover Commission, that perhaps your greatest problem in the Defense Department is procurement.

Now, as a sort of fiscal officer of the Defense Department, watching expenditures and the budgeting and all that, are you giving any real studies to this procurement problem?

Mr. McNeil. Yes, sir.

Mr. Brown. These are terrible examples of mismanagement or bad judgment, as you know. The subcommittees have found many of them.

Mr. McNeil. I think Mr. Wilson remarked about that the other day in connection with one aircraft that did not work out. For 5 years after World War II very few new aircraft could be purchased. At the beginning of the Korean war no one knew whether that would be a limited engagement or expanded. There was a rush to go into it, and, frankly, in one case they bought an engine from a very reputable company, which didn't pan out.

That was an error of judgment, yes.

Mr. Brown. Is it just a question of not panning out? If I can recall correctly, it was the Hardy subcommittee of this committee, Mr. Chairman, which turned up the fact that some military officer up at the Detroit Arsenal, I believe, had ordered enough supplies and repair parts to run all the jeeps owned by the Defense Department for 104 years, at the highest rate of use, during World War II.

Mr. McNeil. I think that was World War II.

Mr. Brown. It was after World War II.

Now, it seems to a country newspaper editor and just a garden variety Member of Congress, that even an Army officer ought to be able to figure out that they might possibly change the model within 104 years.

If I recall correctly, the only thing that happened was that the man was transferred to Casablanca or some better climate, and I am just wondering what you do when you find these cases.

I remember another instance during the war when toilet tissue was so scarce, and we found, counting all the Indians and Eskimos, that they had a 38-year supply stored up in Alaska—things of that sort.

Does your Department try to stop that? I know you can't stop it all, I don't hold you responsible, but we get these stories and reports that are so bad. Then, when you write a letter to the Department it takes at least a month to get an answer. I am provoked this morning because it took a month to get an answer back to an ordinary letter of inquiry that I sent.

It seems to me that there has to be a little closer relationship here, somehow or other.

Mr. McNeil. I was going to touch on it a little later, but I will at the moment.

I think you made a very good statement when you said you probably can't get everything, but can you get the bulk of it done. The War Department never in history had monetary accounting for property until we began the program in 1952. It started in 1949, but it really got under way in 1952.

That is on its consumption type material, that is, spare parts, gasoline, lumber, paint, and things of that type. The Army put its depot stock material under what we call a stock fund; you might describe it as a Sears Roebuck type of corporation, so that nothing can be taken off the shelf unless it becomes a charge to today's operation and a current appropriation.

Also, that type of mechanism carried on under a law passed by Congress that I mentioned a moment ago, in 1949, lays the groundwork for what I would call good merchandising practices.

As a result of operating in this manner on consumption type inventories in the Army in the last 3 years, they have generated, because of not buying for replacement, $2,500 million. In 3 years the Army has offered for rescission or for application by legislative action, $2,500 million, representing a lessening of value of inventory of consumption items.

Mr. Brown. What is your present military inventory in the Defense Department?

Mr. McNeil. You mean, counting ships and airplanes, bases, and everything?

Mr. Brown. Yes.

Mr. McNeil. It runs about $150 billion.

Mr. Brown. That is about as big as the total inventory of all private enterprise, isn't it?

Mr. McNeil. Yes. Well, it is twice as big as the largest hundred corporations.

Mr. Brown. And I recall that some of our Commission studies show we still own and pay storage on horse-drawn ambulances from back in the Spanish-American War days.

Mr. McNeil. I believe after World War II, there were some dating from the Civil War, but I believe they are gone.

Mr. Brown. And harnesses, with no horses. You had plenty of harnesses, but no horses to put the harnesses on, and horseshoes, as I remember.

Now, what has been done to clean that situation up?

Mr. McNeil. For the last 5 years property of that kind having an original cost of about $1,500 million a year, has been scrapped, sold, disposed of, and it is coming along pretty well.

Mr. Brown. In other words, you are saving some storage and guard costs now?

Mr. McNeil. Yes; and the best evidence of that, sir, is that in the last 4 years, with a substantial increase in storage requirements, because of all the new materials, new weapons that we have been getting, we have built very, very little new storage.

And, that is just an evidence that we are trying to clean out obsolete material to take care of it.

Mr. Brown. I want you to understand I knew Jimmy Forrestal very well. He was one of my close personal friends. And, of course,

I know ex-Secretary Johnson, and Secretary Wilson. I have the highest regard for them, but sometimes I wonder if any man has the ability to really run the Defense Department, and whether it can actually be done or not.

Mr. McNeil. It is a tremendous task. I am optimistic enough to think that it can be done, and that it is improving.

Chairman Dawson. Do you think this bill would help it along? I want to get back to the bill.

Mr. Brown. These questions, Mr. Chairman, all have a connection with this legislation and whether Congress should take further steps to try to see that these things we know have been wrong in the past don't happen in the future. That is our responsibility to our own people, and that is the reason why I pursued this line of questioning, because I think the gentleman agrees something is necessary.

Chairman Dawson. I think we all agree on that.

Mr. Jonas. Mr. Chairman, before you go back to that, would you permit one other question along that same line?

Chairman Dawson. Yes.

Mr. Jonas. Would you make a capsule comment on how advantageous you think this single-manager system is going to be?

Mr. McNeil. The single-manager system?

Mr. Jonas. Single-manager system on procurement.

Have you been in there long enough to appraise it?

Mr. McNeil. No, we haven't, but I, personally, think that the claimed advantages will not prove out to be as profitable as some of the advocates have said. I think there may be some operating advantages in certain types of commodities. Food, it's possible that there will be. On clothing, I think there is less chance because of the different clothing requiring different uniforms. I don't see much saving.

On petroleum, that was pretty well along before, although not dignified by the title before that. It was all being done, all being bought by a single agency.

So, I think we may get some operating economies, but nothing, in my judgment, to equal that claimed by some of the advocates.

Chairman Dawson. That was a hearing with all the beautiful charts illustrating the great savings that would result.

Mr. McNeil. The savings come about by just an awful lot of hard work and getting your inventories in line with consumption, whether it is for the Army, Navy, or Air, or the total. I don't think it makes too much difference. You have to do the hard work.

Even within each service, as Mr. Brown mentioned a minute ago, it is a very large operation; and even just taking a service alone, you almost have to break it down into certain identifiable pieces to be able to grasp it and manage it, and it takes just a lot of hard work in keeping inventories in line with consumption and keeping them up to date and modern and not overbuying, overstocking.

And that has to be done, whether it is under a single manager or under the three separate ones. And that is where the real profit is.

Mr. Fascell. You see no difference on the market price of any of the products?

Mr. McNeil. I don't see where you would get much difference in the market price, because in each case the requirement is so large for each of the three that you are getting the lowest price.

There may be some instances where you do. In other cases you may find——

Mr. FASCELL. Government buying sets the market price.

Mr. MCNEIL. Well, I meant that including the Army, Navy, and Air requirements into one lump sum, and going out and trying to buy those. It doesn't necessarily give us a cheaper price than if the Army requirements were purchased and separately the sum total for the Navy and the sum total for the Air Force.

Mr. BROWN. It would eliminate the situation which the Hébert committee showed up, of different branches of the military services paying far different prices for the very same object from the same manufacturer; wouldn't it?

Mr. MCNEIL. It could do that, sir, except if you probably check the orders over a period of time, the prices will be different, and you have to average them out. In fact, that is one of the faults I have with the idea.

There was a time if the Army paid $14 for a blanket and the Marine Corps $13.50, we could do a little pressuring for the Army to get $13.50. We lose a little of that.

Mr. BROWN. But when one branch of the service pays 57 cents, as I recall the figure, for a square and another branch of the service buys the same square from the same manufacturer and pays $2.25 for it, there is something wrong.

Mr. MCNEIL. I agree with you, sir.

Now, going to point 4 of the first bill.

(4) Establishment of a comptroller in each department and agency, responsible directly to the head of the department or agency, together with specification of functions to be discharged by comptrollers (sec. 2c). Recommendation 11 of the Hoover Commission.

Title IV of the National Security Act, as amended, already provides for appointment of comptrollers in the Department of Defense and each military department and prescribes comptroller functions on a broader basis than proposed in this bill. In addition it has been established that Department of Defense and each military department shall have an Assistant Secretary responsible only for financial management.

I think that touches on something Mr. Lipscomb brought up which is the importance of financial management and this is our idea of the importance of this function. In our department it is under an Assistant Secretary who has responsibility for this function in each military department as well as the Department of Defense as a whole.

Mr. LIPSCOMB. It is just the Department of Defense that comes under the National Security Act; isn't it?

Mr. MCNEIL. Yes.

Mr. LIPSCOMB. This particular section of the bill would be applicable with respect to all agencies of the Government.

Mr. MCNEIL. Yes.

Mr. LIPSCOMB. Therefore, if you found it to work satisfactorily under the National Security Act you would also then say that it would work satisfactorily for all agencies of the Government?

Mr. MCNEIL. Well, I think there should be such a function in all agencies of the Government, and we do like it. But, there is one difference, Mr. Lipscomb, I am going to touch on next. It is important

that the proposed legislation not supersede title IV in Department of Defense although there may be no question.

In other words, I don't think it does, and we would like to preserve this structure as we think it is important.

In one department the Assistant Secretary is also Comptroller; in two cases the Comptroller—a lieutenant general in each case—reports concurrently to the Assistant Secretary and the Chief of Staff. It is important that the present proposed legislation not supersede title IV in application to the Department of Defense, although there may be some question as to whether the proposed law, if passed, would have that effect.

The Comptroller's functions, as provided by the bill (in the language of the statement of Department of Defense views—

greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, his budget responsbilities are even greater.

The Commission's report does not adequately set forth the concept that the Comptroller or the Assistant Secretary for Financial Management, should provide an independent review and analysis of budgets, as well as reports on performance, and that he should assist the Secretary of the Department as coordinator in reconciling and balancing with each other, the budget claims for financial support of the several fields of operating interest, each of which has its advocate at top level, with the potential resources, including spending authority granted by the Congress. This does not mean that the comptroller or Assistant Secretary for Financial Management actually controls the operations, or serves as a general manager, or is the superior of his teammates who have responsibility for actual operations in their respective fields.

The Department of Defense has been active in the development of this concept in Federal Government.

Now, what I have just read is our feeling that is expressed in our comments on the Hoover Commission recommendations on this subject, and I wanted to repeat them here. In other words, I feel that the establishment of comptroller is proper, but I think the duties go beyond accounting and has to cover the budget which gets into the evaluation of the money requirements for the various programs.

Believing it is inappropriate for the Department of Defense to comment upon the need of providing in law for establishment of comptroller functions in other agencies, the Department of Defense has nevertheless found that title IV of the National Security Act, as amended, with its broader concept of financial management, has been very helpful in improving financial management in the Department of Defense.

(5) Establishment of Staff Office of Accounting in the Bureau of the Budget under the supervision of an Assistant Director of the Bureau for Accounting (sec. 2c of the bill); re recommendation 10 of the Hoover Commission.

(6) Requirement for joint studies by the Bureau of the Budget and General Accounting Office to determine: (a) What steps can be taken to eliminate duplicate accounting between the Treasury Department and the other departments and agencies; and (b) the adequacy of internal auditing in the departments and agencies (sec. 5); re recommendations 20 and 25 of the Hoover Commission.

We offer no special comments with respect to the provisions which would establish a staff office and Assistant Director for Accounting in the Bureau of the Budget, and require studies of the Treasury Department and the other departments and agencies. We shall be

glad to cooperate in implementation of these objectives, whether or not they are enacted as law.

In other words, we feel it is kind of inappropriate for us to comment on that phase of the bill.

Establishment of a single account under each present annual appropriation, eliminating a separate account for obligations of each fiscal year (sec. 4); re recommendation 17 of the Hoover Commission.

Establishment of a single account for each annual appropriation would simplify integration of accounting for costs and obligations, which is one of the most important features of this bill, as well as permit the agencies to settle claims against appropriations which presently lapse.

H. R. 11526 includes the most important provisions of H. R. 9402 with respect to budget and accounting methods. These provisions include the following amendments of the Budget and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950:

(1) A requirement for the institution by the departments and establishments of the cost basis of budgeting in submitting requests to the Congress for appropriations, in such manner and at such times as may be determined by the President (sec. 1b of each bill).

(2) A requirement, as soon as practicable, for each executive agency to maintain accounts on the accrual basis (including integrated property accounting) to facilitate the preparation of cost-based budgets (sec. 2b of each bill).

(3) A requirement for achieving, insofar as possible (a) consistency in accounting and budget classifications; (b) synchronization between accounting and budget classifications and organization structure; and (c) support of budget justifications by information on performance and program costs by organizational units (sec. 2a of each bill).

(4) Requirements in administrative control of appropriations or funds: (a) To simplify and reduce the number of administrative subdivisions (sec. 2c of H. R. 11526 and sec. 3 of H. R. 9402); and (b) to make administrative subdivisions upon the basis of cost-based budgets when instituted under section 1 (b) (sec. 1b of each bill).

As previously stated to your committee, the Department of Defense supports these 4 provisions of this bill with respect to the use of (1) cost-based budgets; (2) the accrual basis of accounting; (3) the basis of synchronizing budget and account classifications; and (4) the basis of administrative subdivision of funds—provided that (a) the meaning of "cost-based budgets" and the "accrual basis of accounting" is understood; (b) the obligation basis of budgeting, accounting and administrative control of appropriations and funds is also continued to be utilized; and (c) adequate time is allowed for orderly development and installation of practicable new methods in a manner that will not disrupt operations nor unduly increase the expense of conversion.

I think your bill takes care of the latter point. However, I want to emphasize the point I made a moment ago, provided the accounting and administrative control of funds are also continued to be utilized. I think we must do that.

Chairman DAWSON. At the top of the page, you have "provided that the meaning of 'cost-based budgets' and the 'accrual basis of accounting' is understood * * *."

Mr. McNeil. I will try to make those points clearer a little later on if I may.

Mr. Henderson. I take it, Mr. McNeil, from (a) and (b) that you feel these things can both be handled at the same time?

Mr. McNeil. Yes, sir.

Mr. Henderson. Accrual and cost-based budgets can be instituted along with the present obligational budget?

Mr. McNeil. Yes.

Mr. Jonas. On page 8, Mr. McNeil, in your second proviso, if we leave that obligational basis in the law, doesn't that go right to the heart of what Congressman Lipscomb and Congressman Rogers are aiming?

Mr. McNeil. No; may I attempt to develop that in the next few minutes, and if I don't completely answer that question I will be glad to do so then.

Mr. Jonas. I am thinking that is the biggest fault with the present system; the obligational authority.

Mr. McNeil. I think that in the past the Government has, overemphasized the phase and I will try to bring that out. I think the Government has emphasized the obligational side, and almost forgotten the other. I think there is the same danger, however, of emphasizing the other and forgetting the obligational side.

To bring the two things into balance, that is really the important step ahead we must make.

H. R. 11526 contains a proposed requirement to make appropriations upon the basis of estimated annual accrued expenditures, rather than estimated obligations to be incurred, when and to the maximum extent deemed desirable and practicable by the President (sec. 1 (a)). This is a new provision which was not included in H. R. 9402.

The question of conversion of the basis of appropriations to accrued expenditures may be separated from all the other provision of the bill, including cost budgeting. It will be the subject of separate comment. All of the other provisions of the bill may be implemented without changing the present obligation basis of appropriations.

So far as the Department of Defense is concerned, title IV of the National Security Act, as amended in 1949, based upon recommendations of the first Hoover Commission, already contains, among other things, most of the features of the foregoing proposals, other than the accrued-expenditure basis of appropriations. This bill would make such requirements governmentwide and, while not so broad in scope as title IV, does add certain specific detailed requirements which are not in title IV.

With the aid and encouragement of Congress (especially the Appropriations and Armed Services Committees) the Department of Defense has made much progress under title IV in:

(*a*) Improving appropriations and budget account structure; synchronizing budget and account classifications and organization units, and providing an account structure to take the cost-basis of budgeting, as well as the obligation basis.

I would like to touch on that a moment. About 7, 8, or 10 years ago we had a combination in budgeting that was almost impossible to work with. In some instances an agency appropriation would be on the basis of objects of expenditure, and part of the agency's appropriation would be on the basis of organization. Part of the

appropriations were on the basis of broad function, and the appropriation didn't always match the organizational structure, nor did the object of expenditure match the organizations or the functions. And that was what we started with between 1945 and 1950.

All those things have to be, as your bill very properly calls for, brought into line, and synchronized, or you can't get the benefit from these things we are all aiming for.

We haven't completed our task yet, but we are well along, and I will touch on that in a minute.

(*b*) Installing financial accounting for property, worldwide, on a practical basis, with special consideration of needs of combat forces.

As to this program—in many instances we have in effect what is a rough casting which is just what we want, but we still have to rub off the rough edges before it is really a polished and complete article.

(*c*) Instituting the use of working capital funds, authorized by title IV, to finance inventories of consumable materiel and operations of industrial—and commercial-type activities—which furnish goods and services to other activities. These funds provide great management advantages which could not be obtained if appropriation methods were used. Also these funds employ the accrual basis of accounting for their operation (similar to private industrial and merchandising businesses). And they also facilitate the use of the accrual basis of accounting and cost budgeting and accounting by the customer, or consuming activities which are financed by the appropriated funds.

I think Mr. Lipscomb made a very good statement when Mr. Rogers was here a few moments ago. I believe you said, Mr. Lipscomb, that there were differences between Government and industry accounting, and in the Department of Defense we have many types of activities which are almost identical with their counterpart in private business—shipyards, manufacturing arsenals, and things like that are almost identical. And we can in those instances apply those principles and procedures which have been found best by successful private business, and that is what we are doing.

I mentioned a while ago the net results we had gotten, in the case of the Army alone, from putting consumption-type inventories under that type of control and permitting the institution of good merchandising principles, which was the return in 3 years of $2.5 billion.

(*d*) Improving and simplifying the basis of administrative subdivisions of appropriations and funds.

(*e*) Beginning the use of cost-based budgets and accounting and the use of the accrual basis of accounting for appropriations financed activities.

This committee might be interested in what the Army, Navy, and Air Force is doing. Perhaps the most significant thing in the last 2 years has been the installation in the Army of command management system which is in effect putting these principles in major posts, camps, and stations. They will be pretty well along toward completion in the continental United States by fall.

(*f*) Establishing a sound basis of programing and budgeting for procurement requirements, in terms of cost, of all major end items, through analysis of planned peacetime and mobilization requirements and consideration of quantities on hand and on order.

I don't say we are perfect on that, but on major items the analysis work is well done. Mr. Brown brought up this question and very

properly, because we have done some foolish things in procurement and we still may do them, but I hope the chances are less than before. These (indicating from sample forms) are the type of things required for each major item which brings in both the inventories, items that can be substituted, as well as an outline of how the requirements are computed, as well as the dollars. This is a complicated process, but this is a complicated business.

That is done on each major item before any money is provided.

(*g*) Improving obligation accounting under section 1311 of the Supplemental Appropriation Act of 1955.

(*h*) Beginning the use of commitment accounting under long lead-time programs. (Commitments are procurement actions prior to obligation—such as orders to place contracts—for which funds should be reserved in determination of the day-to-day status of these programs, as well as accounting for progress in performance.)

(*i*) Improving administrative budgets and reports.

Now, that is the state you are in between the time you tell somebody in the field to buy something and the time that it becomes a firm contract with a supplier. I think you will find that on examination we have done a great deal toward improving administrative budgets and reports.

Mr. Chairman, I dwelt on these points because frequently, through a series of hearings, when changes are being advocated, it is very easy to emphasize what has not been done and ignore what is actually being done within the present framework. And my remarks on present progress is an effort to put the problem in perspective.

I dwelt on that a bit because when I was here about 2 or 3 weeks ago Mr. Conick was testifying for the chamber of commerce. I think he said he had been in government some years ago. I wish he might come back today.

I don't think he would find it similar. He would find things different, and that progress has been made. He said things were worse now. There are people staying up day and night trying to make this a better machine. And I do resent, for the people who are trying to make it better, just a loose statement that things are getting worse instead of better. Anybody could take an hour and examine the situation and find some of the progress that is being achieved.

Mr. BROWN. Could I ask you a question there, which I hope you won't misunderstand. In the past, especially during the balmy days of June, we have had a great many reports reach the Capitol Hill as to how the lights were burning late in different agencies including the Department of Defense while they tried to get rid of money that had been appropriated before it elapsed, and went back to the Treasury before June 30.

What has been done to correct that situation?

Mr. MCNEIL. Three or four things, sir, and I believe upon examination you would be gratified over what has taken place over the last 4 or 5 years. Part of this is because of improvements in administrative processes. Congress played probably the biggest part in providing for our long lead time procurement, a continuing type of fund. June 30 now means nothing. The funds for aircraft, ships, tanks, ammunition, and so forth, does not lapse on June 30 in the Department of Defense.

Mr. BROWN. I understand that is the case on some of the large items, but what about your ordinary items, common-use items?

Mr. MCNEIL. The same thing, sir; because in the revolving fund carrying our consumption type of inventories we again have no incentive to do anything by June 30, because it is a revolving fund, and does not die on June 30.

So, there is no incentive today to buy anything on June 30 that you can buy on August 1, absolutely not.

Of course, Congress did take disciplinary steps some years ago by providing that no more than 20 percent could be obligated in the last 2 months of the year. That is perfectly all right, but actually the principal thing is there is no incentive any more under the pattern Congress has set up for us to do that by June 30.

Mr. BROWN. Do you feel that this situation has been eliminated?

Mr. MCNEIL. I would hate to say 100 percent, but 99 percent; yes.

Mr. BROWN. You are speaking of the Department of Defense only?

Mr. MCNEIL. The Department of Defense.

Mr. BROWN. Of course you don't know whether that exists in other departments and agencies?

Mr. MCNEIL. No, sir; but as long as the funds die on June 30 there will always be the incentive for people to think they have to do that. I think we have gotten to the core of the problem. Next, I want to mention one other thing which is related to the continuing type of funds which I think has been one that has saved Uncle Sam hundreds of millions of dollars in the last 5 years. Today under this principle we now can get people to work on canceling out things that were previously ordered and now no longer needed, whereas if they are bought on an annual appropriation it is difficult to get them canceled.

May I give you a specific example? The Marine Corps is a pretty good outfit. It is small enough so that it is a pretty tightly run show on procurement. At the beginning of the Korean war they very properly, I think, placed a considerable volume of orders for new type radios, and all that type of equipment, to reequip the Marine Corps. However, it began to be obvious about 1952 that some of the equipment—either because later advances had been made or some of it couldn't be produced—wasn't as good as they would like to have it.

From my standpoint, I could see why the people involved didn't want to cancel. If they canceled under the annual appropriation system it was out, but the House and Senate Appropriation Committees that year changed their procurement funds to the continuing type. In the next 3 or 4 months there was a good, hard look taken at every item outstanding. The result was that there was about $300 million worth of materiel that was canceled to be replaced with orders for materiel that was up to date.

As a result it killed some of the requirement for future appropriations and the amount taken as a credit or a reduction in the next year's request. The kind of thing that is being done is to recognize both accounting facets of the problem and human nature. If we can get accounting and human nature to work together, we have got something, but if they are opposing we haven't solved the problem.

Mr. FASCELL. Realizing the advantages in a great many cases of continuing appropriation wouldn't it almost require that you would have to start out with a budget and wind up with the same budget if

you are going to exercise any control over the continuing appropriation?

You can't submit one budget to Congress and operate with another one after Congress adjourns.

Mr. McNeil. No; I was going to illustrate that point a little later, because from a statement made earlier in the hearings, I rather got the impression that some believed that Congress has not been provided with information as to where we stand, and what we have, and what we are going to do.

I wonder if I might ask that the committee look at these tables (financial plan for fiscal year 1957). These look rather involved, but to answer your question would you mind glancing down under column 2 about on the 10th space until you see the figure 2113 under the Army procurement and production. It is down about 3 inches from the top.

Now, this figure is a clear-cut statement of the unobligated balances that will be on hand, in case of the Army, this coming July 1.

Mr. Brown. That is $2,113,000,000, I presume?

Mr. McNeil. Yes.

Now, at the same time the next column shows the assets of the Army that they will not have on July 1, but will get during fiscal year 1957 based on reimbursements received for materiel shipped to the military assistance program or delivered by them to the Marine Corps or the Air Force.

The value of reimbursement to be earned next year is $355 million. The next column indicates the amount of reimbursements to be earned in succeeding years based on orders received from the Air Force, the Navy and Marines, and military assistance at the end of the fiscal year.

The next column shows a dash—that means that we are not asking Congress for any appropriation for Army procurement this year. That has just been reported out by the House at zero.

Now, if you look to column 8 you will find the figure $200 million, and that will be anticipated reimbursements based on transactions with Army commissaries, and things of that nature. That gives the total assets in the account for the Army—the gross obligation authority available.

The next three columns show planned obligations for next year, which is a measure of the volume of procurement for the Army next year. For their own account the amount is $1,386 million for military assistance; the Marine Corps and Air Force, $500 million with the total planned obligation being $1,886 million.

Some people have said these carryovers are large, but they are easily accounted for.

Now, I would like to go to one other account of a little different type.

Mr. Lipscomb. Before he leaves that one, may I ask a question?

Chairman Dawson. Surely.

Mr. Lipscomb. Now, in column 2, that comes under the item of certification under section 1311 of the Supplemental Appropriation Act of 1955?

Mr. McNeil. Yes, sir.

Mr. Lipscomb. Mr. Chairman, as long as we have gone into the Department of the Army and production and procurement, I think it would be well to insert in the record this report of the examination

by the United States General Accounting Office of the Department of Defense certification under section 1311 for June 30, 1955, because it has some bearing on the activities contemplated by the types of bills that are before us.

Chairman DAWSON. Your request will be granted.

(The report is as follows:)

REPORT ON EXAMINATION OF DEPARTMENT OF DEFENSE CERTIFICATION UNDER SECTION 1311 FOR JUNE 30, 1955, BY THE COMPTROLLER GENERAL OF THE UNITED STATES

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, April 18, 1956.

Hon. CLARENCE CANNON,
Chairman, Committee on Appropriations,
House of Representatives.

DEAR MR. CHAIRMAN: Herewith is a copy of a report of our examination of the reports submitted by the Secretary of the Department of Defense under section 1311 of the Supplemental Appropriation Act, 1955, with respect to the balances of appropriations and funds under the jurisdiction of the Department of Defense as of June 30, 1955.

A copy of this report is being sent today to the chairman of the Senate Committee on Appropriations.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

REPORT ON EXAMINATION OF DEPARTMENT OF DEFENSE CERTIFICATION UNDER SECTION 1311 FOR JUNE 30, 1955

Section 1311 of the Supplemental Appropriation Act, 1955, requires that report certifying to the balances of appropriations and funds at June 30 be submitted not later than September 30 of each year. Reports from the Department of Defense were forwarded under transmittal dates as follows:

October 8, 1955
October 18, 1955
December 1, 1955
December 14, 1955
December 23, 1955
January 11, 1956
January 31, 1956

The balances as certified for certain military appropriations were considerably understated. The understatement was occasioned by incorrectly handling the additional obligational authority representing anticipated reimbursements covered by orders issued by the Secretary of Defense against military assistance appropriations.

In accordance with the Acting Comptroller General's letter of August 19, 1955, the additional obligational authority was to be shown immediately below the applicable military appropriations as an unobligated and unexpended amount and appropriately identified.

The amount of the additional obligational authority was reported by the Bureau of the Budget to be $4,178,048,810 and was allocated and identified under applicable military appropriations in the President's budget for fiscal year 1957. This figure is not susceptible to audit but is approximately correct.

The Army anticipated reimbursements reported by the Bureau of the Budget to be $902 million, applicable to three appropriations, were not included in the Army certification; therefore the unobligated and unexpended balances are understated by the same amount.

The Navy certification contained the following footnote:

"* This report does not reflect the provisions of Comptroller General letter (B-121541, B-122279) of August 19, 1955, and is prepared in accordance with Accounting Systems Memorandum No. 35 of September 3, 1954, in order that the certification of unpaid obligations as required by section 1311, Public Law 663, will not be delayed beyond September 30, 1955. The revisions required by Comptroller General letter, relating to data other than the certification of unpaid obligations, will be submitted as soon as possible."

The Navy anticipated reimbursements were reported by the Bureau of the Budget to be $245 million applicable to 10 appropriation accounts. Examination disclosed that the Navy without identifying the amounts applicable to common item order reservation had applied $131 million as receivables to 4 of the appropriation accounts. Therefore in four of the appropriations net obligated and unexpended balances are understated by the same amount. In the remaining 6 appropriations the unobligated and unexpended balances are understated by $114 milion.

The Air Force certification identified as anticipated reimbursements an amount of $2,587 million applicable to 3 appropriations compared with the Bureau of the Budget reported figure of $3,031 million.

The amount of $2,587 million was included as receivables, thus understating the net obligated and unexpended balances by the same amount. Using the Bureau of the Budget figure, the Air Force also understated the unobligated and unexpended balances in the same 3 appropriations by $444 million or the difference between $3,031 million and $2,587 million.

Unliquidated obligation balances certified adjusted for comparative purposes by the $131 million and the $2,587 million were as follows:

[In millions]

Army	$6,081
Navy	7,383
Air Force	13,234
Defense	306
Total	27,004

An examination of the documentation in support of the unliquidated obligation balances disclosed that:

1. At least $400 million of military defense aid appropriations, overstated at June 30, 1954, and retained in violation of the Mutual Security Act of 1954 were still being retained at June 30, 1955. (See report on June 30, 1954, certifications.) Under date of December 23, 1955, Mr. W. J. McNeil, Assistant Secretary of Defense (Comptroller), wrote the chairman of the Committee on Appropriations, House of Representatives, that the Defense Department relying on the MDAP certifications (which were overstated in excess of $400 million) initiated in June 1955, through the President a request to reduce the 1956 budget request for MDAP by $225 million. The letter further states that the overstatement would be offset in part by actual disbursements during fiscal year 1955 against liabilities not qualifying under the new criteria as of the end of the previous fiscal year and in part by subsequent execution of valid obligating documents. Actually, as explained in the report on the 1954 certification, the overcertification of MDAP resulted for the most part from an understatement by the Army of the expenditures applied against otherwise valid recorded gross obligations. Under the circumstances the Assistant Secretary's explanation in no way alters the fact that a violation of law occurred and the amount overstated should revert to the Treasury as prescribed by law.

2. The records and documents supporting unliquidated obligation balances are not in such form as to facilitate audit and reconciliation.

3. Generally, trial balances were not run by the departments of balances on individual documents and reconciled to the control accounts. In those instances, during the examination, where it was possible to try and reconcile the documents to the control accounts, the control accounts were found to be overstated.

4. Expenditure data on the installation records do not agree by hundreds of millions of dollars with the official expenditures reported by the Army and Air Force in reporting official year-end balances and issuing certifications. The installations therefore are restricted to reporting, for certification, gross obligations. The official expenditure figures are then inserted at the departmental level to arrive at the certification balances. The Army avoided the error committed in the June 30, 1954, certification by inserting the official figure. This extremely unsatisfactory condition of the expenditure records precludes the stating of any accurate reconcilable amounts for certification.

5. Substantial amounts were deobligated in 1954 fiscal year and prior 1-year accounts during the period April 30, 1955, to June 30, 1955. The net decrease per examination was $541 million. Actual deobligation was in excess of this amount as adjustments increasing the obligations are netted in these figures and cannot be separated. The amounts by Department were:

[In millions]

Army	$292
Navy	58
Air Force	191
Total	541

6. Substantial amounts were also deobligated prior to June 30, 1955, in the 1955 1-year accounts and all the no-year accounts. The exact amount of deobligations could not be determined in the Army and some bureaus of the Navy owing to the intense obligating activity in these accounts. One case in point where verification was possible occurred in the Navy Bureau of Aeronautics where the Bureau prior to June 30, 1955, deobligated $997 million representing reservations for spare parts, engineering changes, and miscellaneous items that were not definitized by a valid amendment to the contracts.

In the Air Force major procurement accounts deobligations were made:

[In millions]

May and June 1955	$1,027
July 1 to November 30, 1955	2,116
Total	3,143

7. The departmental internal audit groups conducted audits of the unliquidated obligation balances at June 30, 1955. Their audits were reviewed in detail. In the Army and the Air Force, generally, the criteria used and the audit results were satisfactory. The scope and reported action on the findings of the Navy audit are considered unsatisfactory. Summary details of the results of the departmental internal audits are:

[In millions]

(A) Army:	
Recorded unliquidated obligations	$6,229
Amount examined	$4,190
Percent examined	(67.3)
Invalid obligations	$172
Adjusted	$144
Unadjusted (principally spare parts)	$28
Unrecorded obligations	$28
(B) Navy:	
Recorded unliquidated obligations	$7,604
Amount examined	$2,158
Percent examined	(28.4)
Invalid obligations	$5
Adjusted	(1)
Unadjusted	(1)
Unrecorded obligations	(1)

[1] Not reported.

The Navy audit was confined to 1955 transactions only and did not determine to what extent obligations recorded on the books for prior years were invalid.

[In millions]

(C) Air Force:	
Recorded and unliquidated obligations	$13,474
Amount examined	$9,737
Percent examined	(72.3)
Invalid obligations	$1,710
Adjusted	$1,710
Unadjusted	------
Unrecorded obligations	$29.5

8. Projecting the departmental audit findings on an arithmetical basis to the unexamined portions would indicate additional invalid obligations approximating as follows:

[In millions]

Army	$83.7
Navy	12.6
Air Force	656.3
Total	752.6

To what extent invalid items are included in the unexamined portions is impossible to determine; however, it is reasonable to assume that they are present in the same related proportions as the examined portion.

9. A comparison of the reported unliquidated obligation balances at June 30, 1955, with the amounts certified is as follows:

[In millions]

	Reported	Certified	Decrease
Army	$6,529	$6,081	$448
Navy	7,604	7,383	221
Air Force	14,845	13,234	1,611
Defense	323	306	17
Total	29,301	27,004	2,297

The $2,297 million is offset to some extent by lapsed appropriations included in the reported balances but which were not certified under section 1311. These amounts by Department were:

	In millions		
	Decrease	Lapsed balances	Net decrease under sec. 1311
Army	$448	$30	$418
Navy	221	282	
Air Force	1,611	33	1,578
Defense	17	17	
Total	2,297	362	1,996

The amount of $1,996 million is after the departments added for certification purposes unrecorded obligations at June 30, 1955.

10. In addition to reviewing and testing the audits of the departmental internal audit groups, selected tests were made in certain areas with the following results:

(A) ARMY

In the Army tests were made at 18 major installations responsible for certifying the major portion of the unliquidated obligations of major procurement accounts. By technical service they were:

Service:	*Installation*
Ordnance	10
Engineers	2
Quartermaster	4
Signal	1
Transportation	1
Total	18

Questionable items, in addition to those disclosed by the Army Audit Agency, in the Ordnance Corps, were as follows:

[In millions]

Unsupported by documents	$3
Citation to wrong appropriation	3
Duplicate obligations caused by certifying overexpended amounts as obligations although obligations had been certified at other installations	35
Items obligated twice	1
Unliquidated obligations on terminated contracts not deobligated	3
Total	45

The $28 million commented on by the Army Audit Agency but not adjusted by the installations was comprised mainly of reservations for spare parts. In addition to the amount disclosed by the Army Audit Agency, several other

instances were noted where similar items were not disclosed by the Army test. Time did not permit checking all of the contracts at all locations, but the best approximate estimate available is $100 million instead of the $28 million disclosed by the Army test. This $100 million is in addition to the $45 million discussed above.

(B) NAVY

The Bureau of Ships prepared a trial balance of its unliquidated obligations at June 30, 1955. The trial balance supported by documents on hand was $219 million less than the control account. Certification was made on the basis of the control account and the trial balance was made to agree with the control account by inserting a suspense item of $219 million. At the time of our examination documents were not available to substantiate the $219 million suspense item.

The Bureau of Aeronautics prior to June 30, 1955, wrote off $997 million representing reservations for items not yet definitized. Most of these items were eliminated from obligations originally made on the basis of letters of intent that still remain on the records as letters of intent. The letters of intent under a ruling of the Bureau attorneys carried the maximum liability to be incurred under the anticipated contract rather than the amount necessary to finance operations for a specified period of time under the letter of intent. After writing off the reservations for undefinitized spare parts, engineering changes, etc., there remained an excess of $794 million over and above that necessary to finance the letters of intent for the period of time they have been in effect, 43 of which have been in effect over 6 months.

Obligations as recorded were in accordance with the amounts specified in the letters of intent; however, the entire amount is highly questionable because of the practices involved regarding maximum amount specified and length of time the letters of intent are allowed to remain in effect. An aging of the 48 letters of intent involved is as follows:

Calendar year 1951 and 1952	11
Calendar year 1953	9
Calendar year 1954	23
Calendar year 1955	5
Total	48

The Military Sea Transport Service made a clerical error in certifying to contingent liabilities of $171 million. The correct amount was only $71 million.

The Marine Corps incorrectly netted prepaid expenses against accounts payable in its stock fund certification, thus understating unliquidated obligations by $2 million.

(C) AIR FORCE

Additional tests were not made in the Air Force because of the condition of the records at the Air Material Command, which controls about 80 percent of the procurement appropriations. The condition of the records was discussed in the report on the June 30, 1954, certifications. As a result of the 1954 report, action was initiated in September 1955 to correct the records. Had an examination been made by GAO before December, when the certification was received, the Air Force action would have been delayed and the findings would not have been conclusive pending adjustment of the records. Examination by the Air Force of approximately 70 percent of the dollar amount recorded resulted in a downward adjustment on the record of about $1.5 billion of recorded invalid items.

A study was made of the Air Force revised procedures for recording obligations involving spare parts. Formerly spare parts were obligated on a percentage basis upon execution of the contract. The spare parts provisioning clauses of the contract then required the contractor to submit lists of parts to be negotiated as to item, price, and quanity before execution of a contract amendment.

After the close of the fiscal year but prior to issuance of the GAO report for June 30, 1954, the Air Force changed its procedure to provide for recording an obligation upon receipt of the contractor's list of spare parts. As of June 30, 1954, the Air Force had recorded as obligations spare parts totaling at least $1,105.7 million that were not supported by contract amendments. The Air Force, many months later, abandoned the original procedure of obligating spare parts upon execution of the contract and considered as obligations the spare parts lists when originally submitted by the contractor which was prior to

negotiation of prices. The Air Force maintained that according to a June 30, 1954, report it had on hand unnegotiated spare parts lists totaling $700 million. At the time this change was made many of the lists had progressed through successive stages of the price, quantity, and item negotiation stage, and verification as to the exact status of the lists totaling $700 million on June 30, 1954, was impossible.

Under both procedures, once the funds have been obligated, there is no incentive forcing the contractor to agree quickly on a negotiated price. Examination as to the exact status of the lists totaling $700 million on June 30, 1954, was

1. The Air Force is now requiring contractors to show on the spare parts lists an estimated unit price wherever possible. Formerly many of them carried only an estimated aggregate price.

2. When received, the spare parts lists are closely checked by supply points as to item price and quantity, and, where possible, unit prices are inserted where the contractor neglects to do so.

3. The lists are approved and sent to the administrative contracting officer, who in turn approves the list and sends it to the contractor.

4. Every effort is now being made to have the contractor agree to a negotiated unit price before shipment, with some thought being given to not permitting shipment before agreement on a negotiated price. This is important and necessary to effective financial management of the Air Force.

5. Spare parts lists are not recorded as obligations until after the lists are approved by the supply point and the administrative contracting officer.

6. Everyone at all levels in the Air Materiel Command of the Air Force is now extremely interested in the spare parts provisioning program and concentrating on reducing the time lag between submission of the original list and issuance of the contract amendment with definite quantities of priced items.

The original spare parts lists, as now being submitted by the contractor and processed by the Air Force, satisfactorily meet the requirements of the provisioning clauses of the contract and, therefore, can be considered as meeting the requirements of section 1311 for recording an obligation. If the Air Force is unsuccessful in getting the contractor to cut down the time lag in submitting firm unit prices, consideration should be given by the Air Force to modifying the provisioning clauses of the contractor.

SUMMARY

1. The impact of section 1311 in the Defense Department can best be described by a summary of the amounts involved in the points covered in the examination. They are:

[In millions]

Deobligations during May and June 1955 in 1954 and prior 1-year accounts		$541
Deobligations during May and June 1955 in no-year accounts of Air Force		1,027
Same as above in the Navy Bureau of Aeronautics		997
Deobligations subsequent to June 30, 1955, but deducted from certification (Army, Navy, Air Force)		1,996
Deobligations July 1 to Nov. 30, 1955, by the Air Force and apparently not considered in the certification:		
Recorded deobligations July 1 to Nov. 30	$2,116	
Net reduction evidenced by certification	1,578	
		538
Total		5,099
Additional questioned items disclosed by examination:		
Sundry Army Ordnance items		45
Army spare parts reservations		100
Bureau of Ships suspense item		219
Bureau of Aeronautics letters of intent		794
MSTS overstatement		100
Marine Corps understatement		—2
Total		6,355

NOTES.—(*a*) Possible invalid obligations in unexamined portions are not included above.
(*b*) Complete reconciliation of documents to the control accounts will undoubtedly disclose other items similar to the Bureau of Ships suspense item of $219,000,000.

2. The figures summarized above indicate that aggressive action, although belated, was taken to bring the unliquidated obligation balances within the criteria set forth in section 1311. Further effort is needed at all levels in the Defense Department to eliminate the problem areas that still remain.

3. Problem areas in the enforcement of section 1311 have been, for the most part, confined to appropriations for major procurement, including procurement of spare parts. Minor problems, mostly concerning transportation, have arisen in the maintenance and operation appropriations, although the amounts involved have been relatively insignificant. The problem areas are a matter of record and continuing enforcement will eliminate the problems that still remain. The departmental internal audit groups of the Army and Air Force have been doing excellent work in reporting on invalid obligations. More ready acceptance in the past of their findings, particularly in the Army, would have found the records in better shape at June 30, 1955.

4. The recording of expenditures at installations in the Army and the Air Force will continue to be a serious problem until such time as only one official expenditure figure is used throughout the departments. Until this is accomplished the audit of individual document balances and reconciliation of them to the control accounts at the installations is virtually impossible.

5. The examination indicated very few instances where the criteria for recording obligations were actually misunderstood as the wholesale deobligating by the departments might seem to indicate. Application of the criteria in the proper spirit when recording an obligation can eliminate the necessity for heavy deobligations at the end of the fiscal year.

6. With very few exceptions everyone contacted at all levels in all departments, during this and previous examinations, agreed that strict enforcement of section 1311 was highly desirable in order to insure reliable fiscal reporting.

This report has been reviewed and discussed with the following persons:

Lt. Gen. Laurin L. Williams, the Comptroller of the Army
Hon. William B. Franke, Assistant Secretary of the Navy (financial management)
Hon. Lyle S. Garlock, Assistant Secretary of the Air Force (financial management)

Mr. McNeil. I believe that report was made as of June 30, 1954; is that correct?

Mr. Lipscomb. No; June 30, 1955.

Mr. McNeil. June 30 of 1955.

All right; well, the conditions were essentially the same. In September 1954 Congress passed what I considered to be a very good piece of legislation. In fact, I think it was long overdue. That was defining an obligation, a statutory definition of an obligation.

There was no question that for years, decades, in fact, it had been the practice of many agencies, and I think we did it occasionally, or frequently, recorded as an obligation an item that was thought to be a "firm" deal.

Perhaps it did turn out to be a firm deal a month or 6 months later, when negotiations were finished. I don't know that you found many phony things. However, at time, prior to the completion of negotiations it was posted as an obligation. Actually, it may have been a directive to somebody to buy, say, 100 aircraft at an estimated price of $1 million each. Under the new legislation passed in September, and remember, this was after the fact, the obligation was defined. We are in perfect agreement that an obligation of the United States should be specific in listing the items and signed as a firm deal between both parties and then become a recordable obliation.

However, that legislation required regulations to be issued in order to clarify, because this legislation just gives a broad statement of requirements.

We have all kinds of transactions which have to be further defined. We submitted our draft of regulations to the Comptroller General

in November of that year. We got his comments, I believe, the following March. I am not critical of the delay because there was a lot involved in the problem. They had 4 or 5 differences. Those differences took some time to work out, and they were published in May of 1955. I believe it was the 19th of May. In a place the size of this, by the time you promulgate the orders and instruct personnel as to what they mean you are at the end of the year. So we have a case where the criteria for audit was applied, in effect, retroactively. That is the story behind that report.

Mr. LIPSCOMB. This particular report is based on your last report to the Comptroller General made January 31, 1956?

Mr. MCNEIL. That is correct.

Mr. LIPSCOMB. The only reason I wanted to bring this up was that you were making a point that the Appropriations Committee had been given sufficient facts to adequately justify the budget which was passed, and as this report points out, there were errors or omissions that amounted to many hundreds of millions of dollars. Therefore, when you show this committee $2,113 million, that figure on its face, according to the GAO report, is not actually correct.

Mr. MCNEIL. I don't believe that is correct, sir. For example, if you will look at this sheet you will note it is the plan for fiscal year 1957. The report you mentioned was for fiscal year 1955. If you will look to column 14——

Mr. LIPSCOMB. Yes.

Mr. MCNEIL. It shows in that column $200 million in the case of the Army and $3,791 million for the Department of Defense.

Since the passage of 1311, that part of our business which is in the negotiation stage, is now recorded as commitments, not as obligations.

Now, that amount will show as unobligated where a couple of years ago a part of that might be shown as obligations, that is correct. I think what we have done here this last year, and for the next year—and the principle is very good—is to show the obligations which met the test of the statutory definition, and show separately in a column labeled "commitments" business which is directed, and is in a motion. I think the good figure for the coming June 30 is 3.7 billion.

Mr. LIPSCOMB. Well, the legislation now pending before this committee will help get the correct figure to the Congress in the future?

Mr. MCNEIL. It won't affect this problem at all, sir. I think section 1311 does affect it, but going to the accrual basis would not change this.

Mr. LIPSCOMB. Well, you are going ahead with the improvements in this field; are you not?

Mr. MCNEIL. Yes, sir.

Mr. LIPSCOMB. Because this report to me is quite critical of the operation of the Department of Defense up to the issuance of this report.

Mr. MCNEIL. In the Senate, the other day, a representative of the GAO stated, when asked by a Senator, whether the Department of Defense was making progress, replied that in view of the complexity of the situation he thought the progress was pretty good. He is sitting right behind you.

Now, I think I would be the last to say that we haven't had dust under the rug or over in the corner under the chairs in years past. I would be last to say it is absolutely dustless today, but I would like to

think that the house is getting pretty clean. We are ready for company, so to speak.

Mr. LIPSCOMB. My intent in proposing legislation of this type is not to criticize the work that has been done, because I realize that the job has been enormous. The purpose of the legislation of this type is to give you an added tool to do a more efficient job, and I believe you have stated that you feel that we can do a more efficient job. That is the purpose of the legislation. And it isn't to say that you haven't made improvements, or that you are not trying to give the Congress adequate facts; but to date, the Congress needs more facts in order to do the job that they have to do.

Mr. MCNEIL. I don't disagree with that, sir. I agree with the accrual principle, and I agree with the cost basis, but I think the requirements for synchronization for budgeting, accounting, and administration of funds is an absolute must.

We come to the next question, though, and that is the budgeting of accrued expenditures, and how do you handle the authority to do work to be performed in the future? When you do that, you get into the problem of providing some form of authority, and when you provide some form of authority it will have to be shown in some manner such as pictured in this table.

The CHAIRMAN. The value of the future authority.

Mr. LIPSCOMB. With adequate background material.

Mr. MCNEIL. Absolutely.

In the area of operations and maintenance, the Department of Defense is moving toward the goal of budgeting, controlling, and accounting for all controllable costs of each major identifiable activity under one allotment. This requires improvements in appropriation and budget account structures—synchronizing budget, accounting, and organization structures—managing programs in simple, direct organizational channels, as well as use of the accrual basis of accounting, including financial accounting for inventories.

If I may, I would like to emphasize the importance of synchronizing budget and account structures—precise synchronization within one system—without the necessity for reconciliations. The use of the accrual basis of budgeting and accounting is fine, but to be useful in financial management, or in budgetary reviews by the Congress, it must be within the framework of appropriation and budget account structures. Otherwise there will be two systems requiring complex and difficult reconciliations.

The three military departments are in different stages of progress in making these improvements. The Department of the Army has recently reached an important milestone in this program, as indicated in the following excerpt from the report of the House Appropriations Committee on the defense appropriations bill for the fiscal year 1957 with respect to its $3 billion operations and maintenance appropriation:

> The Department has presented to the committee a proposed revision in the budget structure for the "Maintenance and operations" appropriation to make it correspond more closely to the command-management system currently being installed throughout the Army. This system which will provide the basis for a cost-of-performance-type budget is progressing rapidly and it appears to the committee will make possible the gathering of more accurate information on the cost of operations and closer financial control in addition to giving the individual commanders and their staffs greater authority and flexibility in conducting their day-to-day activities within the limitations imposed by actual cost factors.

If there were time, other examples applying to the Navy and Air Force could be given.

In naming these improvements in the financial system special consideration is being given to the combat and combat-support forces of each service. The system can and must be simple for these activities, as well as fit into the entire system in each military department.

I might mention that double-entry bookkeeping is appropriate for certain types of installations, but it is questionable whether the double-entry system is right for an Army or Marine division at the 38th parallel in Korea, especially under combat conditions. Yet the different methods applicable to different types of activities must be integrated into one overall system.

Nevertheless, much remains to be done, because of the time it takes in such an immense, complex, and far-flung establishment as the Department of Defense.

Because the problems cannot be dealt with except in consideration of every facet—management requirements, programing, budgeting, funding, property accounting, cost accounting, and so forth, we have developed a complete plan for our financial system. We would welcome the opportunity to present it to your committee, if it can be arranged.

I just mention that because now or some time later this committee might be interested in having us present the whole plan to them. It takes an hour or an hour and a half to get an idea of the different elements involved, and we would be happy to do it if you would care to arrange it.

The Chairman of the Hoover Commission task force on budget and accounting has told you that the Department of Defense has made improvements in financial management, and some of them have been mentioned in task-force reports of the Hoover Commission, including that on business organization, but it apparently did not appreciate the full magnitude and scope of the improvements and the nature of the complete system required.

The Department of Defense agrees with the proposal for submitting cost-based budgets to the Congress with appropriate requests just as rapidly as it is feasible to do so, considering not only the rate of continuing progress in installation of improved financial systems, but also technical progress in the development of generally acceptable forms of budgets and reports for the Congress. This may be done without changing the basis of appropriations.

As stated by many observers, it has been true in the past that inadequate attention has been paid to costs in the Federal Government. It is possible to budget for both obligations and costs within the present basis of appropriations in terms of obligational authority.

The cost basis of budgeting and accounting may be implemented in different ways, as illustrated by practices approved by the Congress for different agencies.

First, is the problem of relating cost-based budgets for operating activities and the budgets for procurement of consumable inventories. Cost-based budgets for operating activities must reflect the cost of material consumed. But cost-based budgets are also required for procurement and inventories of this materiel in advance of consumption. And both types of budgets must be related to appropriations and funds made available by the Congress.

In the Department of Defense, consumable inventories, or stocks on hand, amount to more than $15 billion, including food, clothing, spare parts, fuel, lumber, medical supplies, and so on. Most of it is centrally procured and distributed by inventory managers. Much of it is even chargeable upon use to different appropriations, as well as decentralized activities, locally managed. There are also large amounts of sales to individuals and to other services.

The Department of Defense has found a valuable tool in the use of working capital funds to finance procurement of these inventories and holding them until sale or issue for use—conforming to the organization needs in separate management of inventories and consumption. It also means that obligations of consuming appropriations for material costs are actually budgeted directly on the basis of cost. These obligations equal costs—no reconciliations between costs, accrued expenditures, and obligations are required for inventories, as is true in the case of some other agencies who do not use these funds. And yet the Congress actually exercises effective control over these working capital funds through the power to appropriate or reduce capital requirements based upon the amounts justified for future plans—separate actions which would not be available to the Congress if budgeting and financing of inventories were combined with the cost of operations under the operating appropriations. And such combined budgeting and accounting would be quite complex—especially for laymen.

By laymen, I mean generally the kind of people we must depend upon to manage our business. Excellent field commanders, ship commanders, and aviators—they are the people we must depend on to run it. We must have a system they can easily understand in order to help them manage the business.

Similarly, the budgeting, programing, and accounting for the cost of production of goods and services, in other words, ship construction and ship repair work, is simplified and better management facilitated, by the use of working capital funds for financing defense industrial-type activities, which do work for the program managers in the same manner as though the work were contracted for with private industry.

It might be worthwhile for the committee to consider, through the bill, the encouragement of the similar use of working capital funds in other agencies, where appropriate.

Second, the bill makes no specific mention of the treatment of appropriation reimbursements or revenues under the accrued-expenditure basis of budgeting and accounting. Such appropriation reimbursement or revenues may be considered as deductions from costs or cost offsets in determining net costs. Doubtless it is intended this to be understood although it would be helpful if this were clarified. I only bring up this point because the bill does not mention it specifically.

In the Department of Defense there are large revenues of such character resulting from goods and services furnished by one military department to another, to the mutual defense assistance program, or by one activity to another, within the Department. While a great deal of these reimbursements are to activities financed under working capital funds, there are many other activities financed by allotments of appropriated funds which also have them. These transactions range from overhead expense allocations to other benefiting activities

such as motor pool services and utility charges to reimbursement for capital items of material delivered from stock or procured by one agency for another. This is related to economy in single-service procurement assignments, effective use of stocks in long-supply, and cross-serving to make effective use of existing service facilities and prevent establishment of duplicate service facilities.

When applied to the administrative control of appropriated funds, it is necessary to provide for funding each activity for these reimbursements, in order to permit financing of operations. And when appropriations and funding are upon an obligational basis, as at present, it is necessary to provide for funding for such reimbursements upon the same basis in order to finance long lead-time procurement and research and development work performed upon a cross-service basis. This means anticipation of reimbursements by procuring or performing activities, upon their customers orders, for the procurement or performance lead time, which may be beyond one fiscal year in many cases.

Third, we would like to comment upon the use of cost-based budgets and accrual accounting, in relation to budgets and reports based upon obligations in the financial control of programs, with particular reference to the needs of the Congress, as well as management within the executive branch.

While it is true that the obligation basis of budgeting and reporting is different than the basis of costs and accrued expenditures, the nature and extent of the differences in various circumstances are not fully understood. In general, the difference is significant only in the case of long lead-time programs. When working capital funds are used, as in Defense, for financing consumable inventories, long lead-time programs are confined to capital expenditures, like ships, aircraft and public works, and to research and development work.

In the case of capital expenditures, it should be understood that cost-based budgets means acquisition costs—not cost of consumption. And in the Government, no depreciation costs on such property acquired under appropriated funds should be budgeted and appropriated also for the activities which use the property. The bill might be clarified if costs were so defined to exclude depreciation on facilities financed by appropriated funds.

There seems to have developed an impression that the two bases of budgeting and accounting for obligations and costs are somehow in conflict—that you cannot have the two at the same time—that of the two, the cost-basis is overwhelmingly the more important—that the Congress and the executive branch can do without the obligation basis. To my mind, nothing could be further from the truth. The use of the obligation basis is indispensable, as demonstrated over the years, in congressional control of the purse. However, the same is true with respect to the Secretary of Defense or a Secretary of one of the military departments.

This unfavorable impression of the obligation basis seems to be derived from statements made by some members of the accounting profession who have found the pattern of accounting in Government different from that area of industrial accounting to which they are accustomed.

Traditionally, external financial reports of private enterprise emphasize the determination of periodic accrued revenues, related accrued costs, and resultant profits. Secondarily, statements of finan-

cial condition show assets, liabilities, and capital on a related basis. Legal commitments for the future delivery of goods and services are not generally reported because they do not involve current costs or assets on hand.

Yet for management purposes every well-managed industry has supplemental financial controls and accounts with respect to its commitments, based upon its financial plans—for construction and facilities expansion, purchases of materials and supplies for production and merchandise for resale, research, and development, advertising programs, and so forth. Not all businesses are equally well managed in this respect. And occasionally, an industry is found in financial difficulty because of laxity in such controls.

Mr. FASCELL. Can I ask you a question? Is apportionment for commitments to be obligated in this sheet you showed previously, is that a legal equipment item according to the term you used?

Mr. MCNEIL. No; it is an administrative procedure to control the use of the funds, because we want to know what they are for.

Mr. FASCELL. This is programing, then?

Mr. MCNEIL. It is more than the planning stage of programs. It is that part of a plan under which specific action will be taken during that time period.

Mr. FASCELL. Administratively?

Mr. MCNEIL. Yes. In other words, the Air Force will have specifically directed Wright Field to procure 100 aircraft.

Mr. FASCELL. And it goes up on the Board, but that is not a legal commitment?

Mr. MCNEIL. No; but in speaking of business practices we find in some instances some business firms have a pretty good idea of future obligations and commitments. In some instances they are very poor. This afternoon I will have to spend some time on a matter relating to a company which is in very very bad shape, and it is a big one, but they haven't a good idea how they stand for the future, and they are in trouble. And that is a case where lack of attention to future obligations and commitments creates a situation which is just as weak as overemphasis on that side and lack of emphasis on the cost. Both, I think, have to be taken into consideration.

Mr. HENDERSON. Mr. McNeil, early in your testimony you said you were going to define for us what is meant by "cost basis." Do you still plan to do that here?

Mr. MCNEIL. Well, I thought I had a moment ago.

Mr. HENDERSON. That is one of the big problems that we have.

Mr. MCNEIL. I can sum it up in this next paragraph, and if I don't completely answer your question I will attempt to then.

In the Federal Government, the Congress could not maintain financial control over costs and expenditures, without controlling through limitation of amounts and specification of purposes, the legal commitments or obligations to be incurred by the departments and agencies for each budget year. Such legal commitments require future expenditures and result in future costs. And budgeting upon the true cost basis involves consideration of future, as well as current, costs of long-term projects to be undertaken, materiel to be contracted for, and so forth. Therefore, the accrued-expenditure basis of budgeting alone is incomplete cost budgeting, because it ignores such future costs.

Earlier, I made the point that the accrued-expenditure basis of budgeting is feasible within the obligation basis.

The obligation basis is related to the accrued-expenditure basis through a simple formula, as follows:

Obligations incurred equal accrued expenditures plus the increase in contracts and orders or legal commitments outstanding during the period or less a decrease.

The departments and agencies cannot do without budgeting, control and accounting for total obligations and total costs of end items, even if it goes to the basis of accrued expenditures and costs incurred.

In the Department of Defense, billions of dollars are involved in contracts and orders outstanding at any time in procurement of aircraft, ships, guided missiles, production equipment, and related items and components; construction of public works; research and development work, procurement of services in overhauling and maintenance of aircraft, ships, and similar items; and so on. Budgeting, control, and accounting for these programs in terms of end-item and project costs is essential. And budgeting for new procurement requirements each year must take into consideration materiel on order as well as on hand.

Neither the Department of Defense nor its contractors can operate without congressional authority to undertake contracts involving future accrued expenditures. In fact, section 3679, Revised Statutes, forbids contracts and orders to be placed by any officer or employee of any agency except within the amounts authorized by appropriation or other similar authority.

Contract authority or other forms of obligational authority by the Congress are available in lieu of appropriation authority, but their past use has not been considered by many, including, we believe, some members of the Appropriations Committee, particularly in the House, to have been completely satisfactory.

At that point I want to state that the application of the accrued principle and the provision of some form of contract authority, will not eliminate carryover authorizations. Nor will it of itself, reduce them, in my opinion. If I may refer to the financial plan table under Navy and look at the shipbuilding and conversion account, you can identify it by the figure 903 in column 2. That represents a carryover of unobligated funds. Congress is being asked for $1,480 million for shipbuilding and conversion this year. That $1.48 billion covers a specific list of ships, a specific list. That results in the total to be on hand available for obligation at the beginning of the year in column 10 of $2,405 million.

Now, the value of obligations to be placed next year under that shipbuilding program is estimated, looking ahead 1 year, at about $1.3 billion, and again that is by specific ships. It will leave at the end of the year about $1,083 million (column 19) that will appear unobligated at the end of the fiscal year 1957. That figure represents the cost of completion of all of the ships that Congress has authorized and approved specifically because ships are not purchased like an automobile, from a showroom floor.

The first year the keel may be laid and certain of the long-time equipment procured. The third year you may still be doing something to a big ship. In this case, when the Congress approves a list of ships for shipbuilding or conversion, those amounts are set up

individually—obligated as necessary during the construction period—and if there is a change during the course of the period in construction that was mentioned a moment ago, there are changes, but they are presented to the committee for approval either as to use of the savings, or as to increased costs.

In the recent supplemental request submitted about a month ago there was an item of $27 million. Last year there had been approved as one of the line items, three destroyers. They were planned to carry conventional armament. They were actually out under contract as of about early this spring. But during the winter the Navy had very successful results from their first operational use of certain types of guided missiles. The Navy had two choices, either to finish the ships, then after they were finiished, come back and say they are not up to date, and that they would want to spend about $50 million or $60 million in modernizing these ships or to come up and propose to change them now. The decision was made that the cheapest thing to do was to change them now. The committee has approved the change really before they got under construction.

We are going to do an economical job. High priced, yes, but an economical job. That is how that problem was handled. All I meant was that this carryover of appropriations would be identically the same figure if this authority had been provided for under contract authority and we would have shown it in about the same way, although we might call it unobligated contract authority. I don't see where a change in the method of providing advance authority would change the amounts of carryover of unobligated authorizations in any way.

In the past the use of separate contract authority and appropriations to liquidate that authority has tended to result in inadequate consideration of the impact of the authority granted upon future years' appropriations. Appropriation authority, which includes the authority to make payment as well as obligate, is considered more seriously.

This tendency is illustrated by an action just taken in one of the Appropriations Committees on the civil public works appropriations for the fiscal year 1957, according to a statement by the chairman on the floor of the House. Five million dollars was added to this bill in committee, without solicitation by the executive branch, to finance accrued expenditures for that year, for a list of projects for which the ultimate cost may be $300 million. I merely mention this, because it shows the proposed procedure has weaknesses. It is not a panacea for all our ills. I believe that illustration shows the weakness of ignoring or deemphasizing obligational authority for the full cost of projects authorized for the future.

The Hoover Commission Report on Budget and Accounting recommended use of contract authority for long lead-time programs, if its recommendation were adopted to use the accrued-expenditure basis of appropriations. This recommendation appears in the discussion preceding recommendation No. 7. Unless the report is read very carefully, it might be missed.

This kind of authority would be required for the Department of Defense in some form for almost all appropriation areas—not only those which cover exclusively long lead-time programs. Normal operating appropriations involve a mixture of long-lead-time activi-

ties in some cases, and in most cases there are requirements for some degree of advance contracting.

I am thinking in such cases of where you have the basic overhaul of 100 aircraft or 1,000 engines to be carried on by outside contract. If this committee would be interested we would be glad to submit for the record or examination an outline plan for this method. The reason I bring this up, sir, is in the companion bill on the Senate. The bill leaves this somewhat up in the air as to just how this contract authority would be provided, and it would have to be done in some fashion. It would help us very much in commenting on this section of the bill if that could be outlined, and there was a clear understanding of how it would be provided and carried out, and how it would be accounted for.

That is why I have been stressing some of these problems in the last few minutes.

Mr. HENDERSON. Referring to Mr. Rogers' bill, do you feel the present method can work without any additional language?

Mr. MCNEIL. We would feel better if either as part of the record or part of the committee report outlined the general plan of how this authority would be provided, because it must be provided in some fashion. We are not objecting or taking issue with the accrued expenditure principle, but I think you have to have the obligational authority system and as I mentioned on several occasions, I don't think there is any conflict between the two.

In the past the Government has emphasized obligational control and has paid inadequate attention to the other. I think overemphasis on either one would be weak.

Chairman DAWSON. We have just received a quorum call so if you gentlemen wish to answer the call you may do so, and return, because I think we should finish with this witness.

Mr. MCNEIL. I would like to touch on that plan for just a moment. In the plan we submitted to Senator Byrd in 1953 on this subject of appropriating on an expenditure basis and providing contract authority for lead-time items, we tried to make a clear-cut distinction between the two, but also indicated how they could be worked together. We would hope that there would never be a situation where you would provide 10 percent cash and balance in authority. That leads into some real weaknesses and pitfalls.

I think if you ever go to such a system you should provide 100 percent for contract authority, the full cost of everything and then deal with the cash appropriations as a separate but related transaction.

Problems such as I have been discussing were apparently foreseen by one of the members of this committee, the Honorable Clarance J. Brown, who was one of the members of the Hoover Commission. In the Commission's report he made a separate statement with respect to the proposal for converting the appropriation structure to an accrued expenditure basis. He stated:

> This is a radical departure from a long standing fiscal policy which would require widespread change in our entire appropriation process. I am, therefore, unwilling to give it blanket endorsement without the benefit of further study by appropriate committees of the Congress.

We do not wish to be understood as opposing the ultimate adoption of the accrued expenditure basis of appropriations, if the Congress desires it. We have already indicated we believe the idea has some

merit, although it should be recognized that the proposal has some real weaknesses.

I might mention that on our own initiative, we began in 1948 to study the subject and develop the problems involved. Subsequently, in January 1953 we developed an outline plan for application of this method of appropriation, as set forth in a memorandum for Senator Byrd. We would be glad to file a copy of this outline plan with this committeee.

If the Congress should decide to adopt the accrued-expenditure basis of appropriations, as provided in H. R. 11526, it is the view of the Department of Defense that there should be no question as to the authority of the President to transmit budget estimates for authorizations to create obligations in advance of appropriations, and that section 1 (a) should be amended to completely clarify this point as follows:

At page 2, line 9, change the period to a semicolon and insert the following:

Provided, That nothing in this subsection shall be construed to affect the authority of the President to submit requests for authorizations to create obligations in advance of appropriations.

In this connection, however, the committee may wish to consider the opinion of the Comptroller General of the United States to the Senate Committee on Government Operations where he ruled that the passage of this legislation in its present form would not affect the existing authority of the President to submit requests for authorizations to create obligations in advance of appropriations.

A moment ago I stated the proposal for appropriating on the accrued-expenditure basis had some merit and some weaknesses.

First, it should be repeated that the use of this basis of appropriations is not essential to enable the use of this basis of budgeting and accounting. The advantages of the cost and accrued-expenditure basis of budgeting may be and are being obtained in any event. Therefore, let us look at only those additional advantages which are peculiar to this basis of appropriating funds.

Second, it should be understood that, in the main, any advantages would be limited to those appropriations which finance long lead-time programs—otherwise there is little difference between obligations and accrued expenditures, and where operating budgets are submitted on the basis of cost of consumption of materiel financed initially under working-capital funds, as in the Department of Defense, this is particularly true.

Upon this basis, we can see these possible advantage and disadvantages of the accrued-expenditure basis of appropriations.

We can see only one positive advantage. It would permit better understanding by many of the Government's financial operations. Appropriations would be more in line with estimated withdrawals from the Treasury. While not eliminating the large carryovers of contract or obligational authority, covering contracts and orders for future delivery, these credits would be separated from cash appropriation balances and differently described in terms of contract authority.

Difficulty of estimating accrued expenditure for long lead-time programs by each fiscal year is a disadvantage. It is impossible to esti-

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mate with a reasonable degree of accuracy the accrued expenditures for a given fiscal year contract by contract or item by item. Overall statistical estimates must be used for each program, as a whole, and this would not provide a good method of budget justification. The operating problem resulting would require broadening the basis of appropriations and using no-year appropriations for long lead-time programs in the same manner as at present.

I would also like to say that if you do a decent job of it you will always have an estimate far higher than the amount needed. If you examine any program you will have to examine it in such a way as to take care of any possible requirements under the contract. But if there is a shortage of material, if the design doesn't work out, and the progress of the work doesn't go on as originally scheduled, if these is a strike or bad weather or something of that nature, you won't spend it.

You can't estimate accurately in our type of materiel item by item. Overall statistical estimates must be used. One of your problems is this would not provide a very good method of budget justification, although I might say if we take the department as a whole, the whole shipbuilding program, or the aircraft program running 6 or 8 billions of dollars, we can estimate quite well what it is going to be spent for the program as a whole, but not contract by contract, or item by item.

Our estimates are much better than would result from a scientific detailed examination. As a matter of fact, for several years our estimates looking ahead for the Department as a whole have been quite accurate, but item by item, no.

It could require additional unnecessary work in separate administrative funding for accrued expenditures, as well as obligational authority, for every long lead-time program—with no compensating advantage.

I think that is one of the disadvantages to us, that you have to control it two ways, expenditures and obligations, and we don't see where there is compensating advantage to the Government.

Separate contract authority might be treated more lightly by the Congress in the granting than appropriations which also provide funds to finance it, as previously explained. Other advantages have been alleged, which are controversial.

For instance, the statement has been made that departments and agencies would not rush to obligate unused funds near the end of the fiscal year. You can rush out to obligate contract authority as easily as you can a cash appropriation. This would not be changed if contract authority were used. This must be controlled by other means whether the authority be in the form of appropriations or contract authority, as for example by internal management, as well as the congressional limitation presently exercised, on the proportion of obligations to be placed in the last 2 months of the fiscal year.

It would not require Treasury funding of appropriations way in advance of expenditure. I want to add that has been stated, but that doesn't happen because Treasury funding is based on our expected cash outflow, and not the amount appropriated by the Congress, so it wouldn't affect debt management or the Treasury cash position, either adversely, nor would it help as far as I can see.

Another statement: It would result in reduction of Federal expenditures because the Congress would review long lead-time expenditures

twice—once for obligation, once for expenditure. Actually the results might be the reverse if too little emphasis were given to granting obligational authority for total costs—as previously explained. The Congress may review the performance and status of past programs without changing the basis of appropriations, and if it considers programs no longer justified, it may rescind appropriations even to the point of requiring contract terminations or cutbacks.

And that has been done by Congress on occasions, particularly in the 1946–47 period in the cleanup after the war.

It has been said that it would expedite installation of the accrued-expenditure basis of budgeting for the purposes of the Congress and the President, as well as the agencies. We believe this desirable change would be expedited effectively by this bill, which would be the first definite expression of congressional intent, without necessarily changing the basis of appropriations.

Perhaps in fairness to the committee I should point out that during the last week I have received inquiries from industry expressing concern as to how this proposed change in the method of appropriations would be made to work in their long-term contracting. So far as I have been able to ascertain, no clear-cut plan has been outlined during hearings on these bills, nor their companion bills in the Senate as to how this long lead-time authority would be granted and administered. It would cause some concern, although if handled properly it could probably be accomplished.

For the foregoing reasons, as well as because time will be required to complete the installation of the cost and accrued-expenditure basis of budgeting and accounting, which is a necessary preliminary, and to determine the nature of all the problems of this basis of budgeting, we commend the provision in the bill that if the basis of appropriation is to be changed, the President will establish the particular appropriations to be changed and when.

I might say it is our conviction that the savings that might result from changes in this bill would come about largely from the better management of executive branch and secondly from any accounting change. These claims of $4 billion just don't make sense. Better information does help better management and in that way we can get better results, but it isn't the mere changing of accounting, in my opinion.

The CHAIRMAN. I think at this point we should have a breathing spell for about a half an hour, because I know the Congressmen would like to ask you questions, and we would like to complete this hearing today.

(Whereupon, the committee temporarily recessed to answer the quorum call.)

The CHAIRMAN. The committee will come to order.

Mr. McNeil had completed his testimony when we took a little recess, and now if those present have any questions to ask, they may do so.

Mr. JONAS. I think we covered the point I wanted to make about 1 (c). I asked you if we stop with the word "responsibility" on line 18, on page 3 of the Lipscomb bill, if that would take care of your objections to that section.

I think you indicated that it was to the last part of that section that most of your criticisms were directed.

Mr. McNeil. That is correct, but as far as the executive department's position, it could best be expressed by the Bureau of Budget of the Executive Office of the President, and it might be going a bit beyond the scope of my responsibility to comment on that, but if it stopped there I think it would be a much better——

Mr. Jonas. You were also anxious to be assured that whatever change is made in section 2 (c) that it not have the indirect effect or should not indirectly affect title IV of the National Security Act?

Mr. McNeil. That is correct, because title IV of the Security Act is a much broader act and in the case of the duties of the Comptroller provides for a broader assignment of responsibilities.

Mr. Jonas. Do you have any particular language to suggest as to how that could be done?

Mr. McNeil. Oh, I think that the legislative history and the statement of the committee report is probably the best way to take care of it.

Mr. Jonas. And then on page 7 you stated that you support the full provisions of the bill subject to 2 or 3 qualifications.

Mr. McNeil. That is correct.

Mr. Jonas. And they are listed on page 8. It is sort of a technical discussion of accounting procedures, and they are over my head. I don't profess to know too much about it. I think I got the impression from what Mr. McNeil has said that the objective sought to be obtained in these two bills are certainly not objectionable but is not so sure that complete beneficial results that we hope for will be attained.

Mr. McNeil. I think the latter; I do not believe the change in the method of the budget would give the benefits to Congress that may have felt it would. I am speaking of changes in method of appropriation.

Mr. Jonas. I would like to ask you to comment briefly, or were you planning to ask him about that point that you and I discussed, Mr. Pincus?

Mr. Pincus. I think you could ask him.

Mr. Jonas. You commented in response, I think, to a question asked by Congressman Brown that you pretty well eliminated this——

Mr. McNeil. June buying?

Mr. Jonas. Yes, June buying. But how would that be affected if you go to an accrual basis of accounting?

Mr. McNeil. It wouldn't change a bit. Wouldn't improve it nor hurt it.

Mr. Jonas. You don't think so?

Mr. McNeil. As I have said several times, there will have to be some provision for contract authority, for aircraft, ships, and everything we buy. That is running at the present time about $13 billion. In addition, there is outside contracting for overhaul work and things of that nature, and the purchase of the overhaul and other types of material would bring that total close to $18 billion, for which contract authority would have to be provided. You can rush out to buy in June under contract authority just as easily as you can under the present method of providing obligation authority through appropriations.

Mr. Jonas. Wouldn't you be inclined to do that if you were on an accrual basis?

Mr. McNeil. At the present time—I see your point, and I think it is a good one. I think it would be possible—first, the June buying

today is a placing of contracts and not necessarily the paying out of money, although that eventually naturally could follow. In other words, you can buy in June for delivery 1 year later. If money was going to die, people would naturally want to write the checks for June 30, which is not the case at the moment. I think we have practically cured that, to the extent it existed. It did not, however, involve rushing out to write checks in that year, which could be a tendency under the new proposal.

Mr. LIPSCOMB. But under this system of cost-based budgets and accrual accounting, wouldn't you have to show what the program is to be in the future and show what those contracts are for? In other words, more performance data?

Mr. MCNEIL. I don't see where it would change the requirements, sir.

Mr. LIPSCOMB. In other words, if you went out and contracted for something that you didn't need, it would show up on your justifications, on your records to the Appropriations Committee.

Mr. MCNEIL. To the same extent it does today under our current plans. To the same extent, but no greater or less.

Mr. LIPSCOMB. Under your current plan?

Mr. MCNEIL. Yes.

Mr. LIPSCOMB. How far has that current plan progressed?

Mr. MCNEIL. Quite far. For example, you might say our business is broken down to two major divisions, each one covering scores of programs. One, of course, is the procurement of capital goods and that covers all the equipment as well as construction and things of that sort. And the other, the day-to-day operational type of thing, but that also includes items that require lead time, particularly when you are going outside the Department to have overhaul work and things of that nature done.

Now, in making up those programs under obligation authority basis, what is on hand, what is on order, what funds are on hand to buy more of that same type of item are all incorporated before the decision to request funds on the residual portion that you wish to buy. All those things were applied.

Now, that would be the same under either principle. I don't see how you can change it much. Now, when you get to the hundreds of thousands of items which are getting into the spare parts, and consumption-type item, the final decisions on budgeting have to be made on the basis of commodity classes and levels of inventory desired to be maintained. The actual buying, of course, has to deal with the individual connecting rod of the individual piece of gear. The actual buying is controlled within a given stock level of 3 months or 6 months or whatever may be established for that class of material.

Now, one of the points that we feel our present system has that is far better for Congress, far better for the Secretary of Defense, than some other approaches to the accrual system is this: That when we put our material into what we call a stock fund, when it is revolving fund type of merchandise, nothing can be taken off the shelf unless Congress has provided in a current budget money for that consumption. We escape one of the problems we have had in the military, and that is sending requisitions over to the depot, using the material and even though they record it, find that you have to buy more the

next year. And under the stock fund principle, nothing can be taken off the shelf unless it is charged to a current appropriation and that would be true whether under accrued expenditures or under the present basis as we would operate.

Mr. LIPSCOMB. Mr. Chairman, I would like to read something into the record and ask Mr. McNeil to comment on it. It is from page 5 of a report to the House Committee on Appropriations of significant findings developed by the General Accounting Office as of December of 1955.

It says:

* * * While there is a noticeably growing appreciation of the need for correlating the programing, budgeting, accounting and reporting functions to replace the present unrelated systems, most of the unsatisfactory basic weaknesses in departmentwide financial management, discussed in the prior report of significant findings, still exist. Integration of top-level planning of programs with the preparation of budget presentation data is still inadequate; disclosure of the long-range as well as the budget year costs of programs in budget data is still necessary; some improvements have been made in eliminating excessive fund control through the overuse of the allotment device, but only to a limited extent; and the development of a single integrated accounting system incorporating appropriation, funds, cost and property accounting is still far from a reality in most areas of activities. Until financial management in the Department of Defense is related to the control of program objectives in terms of their costs rather than to the principle of control of individual transactions through the funding processes, the development of adequate and interrelated budgeting, accounting and reporting systems will be incomplete * * *.

Mr. MCNEIL. Yes: I would like to comment on that, sir. And it touches on one feature that you have, I think, very properly included in your proposed bill. The development of an accounting system for a post, camp, or station or segment of our operation which disregards the source of the funds is not a system which will ever give a Secretary of a military department or Secretary of Defense or the Congress meaningful information. Because the reconciliation would be so involved, we never would get through it.

Before I came up here this morning, sir, from 8:30 until about 9:45 I met with the Senate leaders. We had a problem that required reconciliation, which could not be explained without a technical discussion. I asked that the administrative assistance of one of the Senators come down because it would take perhaps 4 hours on one single problem to trace through the reconciliation. That is what is involved if we disregard the budget classification or source of funds when accounting at a post, camp, or station. In your bill you have made a very excellent point under section 2 (a), a requirement for achieving insofar as possible consistency in accounting and budget classification and synchronization between budget and classification and organization structure. That is one of the finest sentences I have seen anywhere, because what that means to me is that the way Congress appropriates the money, that is the budget structure that is presented, the administration of the funds within the Department following that, and the reporting back are all in the same wavelength. I assume that is the intent of that provision and it is excellent and it is the key to this whole problem.

Many of the systems proposed in the past by advisers to Army, Navy, and Air Force have proposed accrued accounting—with which we agree—with, however, a system which is independent of the source of the funds.

Now, if we can get to a point—referring to the report of the House committee where the House committee approved a new Army construction for maintenance—the first time in their history that the Army has had its appropriation in such a fashion that one allotment can be issued to a field installation to carry out an identifiable function, which means, then, if accrued accounting is used under an allocation of funds from that particular budget account the report back can be meaningful, without reconciliation. That is the goal we are striving for. Are we taking time to do it? Yes. Because as I said earlier in many instances this is an organizational problem as well as an accounting problem, as well as a budget problem.

On page 11 of my statement I quoted from the House report where the House had approved for the 1958 budget a new Army budget structure, and what I think is almost an ideal structure, which definitely meets the requirement under 3 (b), synchronization between accounting budget and organization structure. That is what we are striving for. Anything less than that is not going to give us the answer in my opinion.

But remember, just installing an accounting system which doesn't match with the source of funds is not a good answer. In the past, as I mentioned earlier in the hearing, our appropriation structure was a mixture until recently of organization of function and objects of expenditures, money appropriated for postage and for travel and elements of expenditure worldwide. Translate that through any type of administration of funds from Congress to the field and there will have to be some mechanism to report back by those same accounts as appropriated and that is proper. But that isn't the way the business is run.

So, by having the single source of funds to get a job done in the field, using the accrual method of accounting, tying into the organizational structure, the money goes down and reports come back, and makes for a complete system.

Now, I want to mention one other thing at this time in that connection. One reason we believe that the revolving fund principle carrying the inventory of consumption material is vital to us is that instantly something is issued for use it becomes a charge at that moment. If something becomes a charge instantly it is used, and obviously it accomplishes the accrual purpose.

Mr. LIPSCOMB. Aren't you using the accrual system in your revolving funds?

Mr. MCNEIL. Yes, definitely.

Mr. LIPSCOMB. What objection is there to it then, and I am talking about H. R. 11526, in putting it into legislative accounting affecting the whole Government?

Mr. MCNEIL. I believe I stated we supported that. We said that in the opening statement.

Mr. LIPSCOMB. By putting it in this bill it causes you no problems?

Mr. MCNEIL. No, indeed.

Mr. LIPSCOMB. I got the impression that you were throwing up an objection to it.

Mr. MCNEIL. Oh, no. Before you left, just before the recess, I rather get the impression or thought you might have that impression. That is entirely wrong. If you will look at the opening statement, I said as to 1, 2, 3, and 4, we agree provided certain things were understood.

Mr. LIPSCOMB. Well, on page 7, you say that the Department of Defense supports these provisions, four provisions, and then on page 21 you have offered all these objections.

Mr. MCNEIL. That is only as to point 5, sir.

Mr. LIPSCOMB. You say you do not want to be understood as opposing the adoption of the accrued-expenditure basis if the Congress wants it?

Mr. MCNEIL. I think there are two separate things there. First, there are 5 points, as we see it, in this bill; the first 4 I said we supported. It was the fifth point on which I was raising questions and trying to point the advantages and disadvantages. That was the only one that I was discussing here in the last pages. The first four are O. K. if certain things were understood. In the case of the last one I was trying to point out the advantages and disadvantages; because I don't believe the advantages of this fifth point that is in the bill—changing the method of appropriating—will give Congress, nor the Department, what some people have thought it would.

That is the point I was trying to make in the latter pages.

Chairman DAWSON. That doesn't appear in your bill?

Mr. LIPSCOMB. No.

Mr. MCNEIL. It does in the second bill.

Mr. LIPSCOMB. Do I get the impression that with certain deletions you perhaps, the Department of Defense, could support H. R. 9402 more than H. R. 11526?

Mr. MCNEIL. I think H. R. 9402, which I commented on first, I think that the general pattern that you were setting was very good. I raised the question of whether you wanted legislation on a couple of instances. I raised the question of establishing comptrollers with broader functions. I said we have done it ourselves, is in law, and we believed in it and don't want to see it disturbed. As to the four provisions which are in 9402, and also in the second bill, we support them.

As to the fifth provision in the second bill——

Mr. LIPSCOMB. Would you specifically point to that fifth provision in the second bill?

Mr. MCNEIL. The fifth provision is the one I was discussing its advantages and disadvantages. That is on page 2, I believe, lines 6 and 7. It is the change in the method of appropriating.

Now, as I mentioned during the discussion on 2 or 3 occasions, we believe in the accrual method of budgeting and accounting. We do believe in it. We are putting it in whether you require or not, and if you want to include it in your bill it is fine with us because it might help us get along faster, so we certainly don't object to that. We support it. The real question is, should the Congress, and we are trying to comment on the advantages and disadvantages, should the Congress change its method of appropriating to one of appropriating money each year for expenditures and call for some other method which hasn't yet been defined to provide us our method of obligation authority to place contracts. That is the one which we are trying to point out the advantages and disadvantages.

Mr. LIPSCOMB. As pointed out in Mr. Rogers' bill, it is stated that it should be utilized to the maximum extent deemed desirable and practicable by the President?

Mr. MCNEIL. That is correct.

Mr. LIPSCOMB. That leaves it rather flexible.

Mr. McNeil. It does, and I later said that that part of the bill is fine. But I also point out some things that, the views of the House committee on this subject, where they hadn't found this workable, and I was trying to present to this committee, as I mentioned before, the pros and cons, the advtantages and disadvantages of that fifth provision in the second bill.

Mr. Lipscomb. I think I have one more question.

Mr. McNeil. You see, this system, if you carry material in a suspense account, such as stock fund, at a post, camp, or station, the charge is made at the time of issue—in essence a phase of accrual accounting. The accrual basis is essentially what you have spent, plus your unpaid bills, unpaid labor to the end of the period. That is the net result of it if you don't go into the depreciation and those things. With the stock fund principle which we have today over $9 billion in inventory, every bit of material issued is a direct charge and therefore there are no unpaid bills for material. It amounts therefore to the extent of unpaid labor bills at the end of the month which have to be distributed by expense accounts to get a complete picture of what has been consumed by that operation.

Mr. Lipscomb. If you get all these accounts in operating order, if that date comes up, you could put out any type of information you wanted to, actually?

Mr. McNeil. Yes.

Mr. Lipscomb. If the President wanted an accrual-based budget, you could pull out any kind of a figure that was requested if you had the right records to go by?

Mr. McNeil. That is correct. So, as I say, the real question we raise with this might be that I think it needs considerable study and that is the change in the method of appropriation. Accrued accounting we don't object to, we are striving for it every day and this may even help us get there faster, so we won't object to that feature at all.

Mr. Lipscomb. In answer to a question by Mr. Jonas, you mentioned about taking out some language perhaps in section 1 (c), starting at line 18. Now, on page 4 of the bill it says:

No such person shall be assigned to any department or establishment for more than 2 consecutive years.

Do you have any comment on whether that could be left in or modified in some way and still follow the intent?

Mr. McNeil. Well, I believe the Bureau of the Budget would be better able to evaluate whether they think their people, if reasonably experienced, could give them a better job than one who was rather new. I believe in the case of the Department of Defense that there are people who have been on the job a considerable period of time and are more helpful to them than would be someone relatively new, because this gets into something for more than accounting. It gets into knowledge of the program. An example is the aircraft program, which is a bit involved, because in the Air Force and Navy there will be probably 35 to 40 models under procurement at one time. You will use different engines, different fire control. It is awfully difficult for someone who hasn't lived with the aircraft program to know the history of the J–64 or J–57 engine, capabilities of this aircraft, the degree of the modernization and understand the translation from fleet or wing requirements into the number of aircraft. It is not something

you pick up overnight, and it is that type of background that is helpful. I have to have people in my own shop with proper background. For the first 6 months we don't expect anything constructive from them.

Mr. LIPSCOMB. You have a problem with relation to military personnel that you put in comptrollership functions?

Mr. MCNEIL. In my own shop, I have less than 5 percent military.

Mr. LIPSCOMB. In your statement, I believe you said that two of your——

Mr. MCNEIL. Well, I meant in the Department of Defense. Now, in the Navy—Admiral Smith, what was the percentage in the comptroller shop?

Admiral SMITH. Except for myself and the Assistant Comptroller for the budget, they are all civilian personnel.

Mr. MCNEIL. In the Air Force I would guess that the——

Admiral SMITH. There are staff officers, but the records of the staff are pretty largely civilian.

Mr. MCNEIL. In the Army, I believe it must run—what would you say? Fifty-fifty or forty-sixty? Something like that. So, these aren't completely military-manned shops although there are military people in them.

Mr. LIPSCOMB. You are saying in two cases the Comptroller, lieutenant general in each case, reports concurrently to the Assistant Secretary and the Chief of Staff. Now, they are on rotation, are they not?

Mr. MCNEIL. Yes; they are. However, their staffs are quite stable. The civilian part of their staff is quite stable. Military has some rotation. They have to rotate about every 3 years. In the case of the Air Force Comptroller, at the moment, this is I believe, his third tour on this general assignment. He has had two field tours in between, but he has stayed in this line of business at a major command, so he hasn't gotten away from this end of the business.

In the Navy, the Assistant Secretary for Financial Management is also designated as the Comptroller. Admiral Smith reports to him. Their staff is largely civilian although there are some military there. We try to prevent bureaucracy and still keep some stability in the working force. In the Office of the Secretary of Defense, less than 5 percent of my people are military. Practically all, however, had military experience in the Reserve.

Mr. LIPSCOMB. Do you feel that it may have been possible, for instance, in the procurement of those military aircraft engines that if there had been a new face from the Bureau of the Budget in the Department of Defense, he might have taken a longer look at that procurement, or the continuing of that program? Do you think that would have been of help?

Mr. MCNEIL. Oh, it could have been, but I think you get a measure of that, sir, in the fact that I believe the Bureau of the Budget's staff is about 17 on this program. And there are changes in that staff from time to time so it is not a sterile group and the same way with my staff.

As a matter of fact, I have lost 2 of my good people to substantial size companies, and 1 became the assistant to the president recently, so I have turnover myself. I don't pay them enough, I guess.

Mr. LIPSCOMB. The Department of Defense is giving wholehearted support to these bills?

Mr. McNeil. Yes; except the one provision as to change in appropriations and the clarifying provisions mentioned. May I go off the record?

The Chairman. Off the record.

(Off-the-record discussion.)

The Chairman. On the record.

Mr. McNeil, I wish to thank you very much. You have been a great help to us. We promised to have Mr. Rappaport out of here by 2 o'clock, so we will go forward.

Mr. McNeil. Thank you very much.

The Chairman. Thank you. I want to say that we are deeply appreciative of the service you have rendered.

FURTHER STATEMENT OF PERCY RAPPAPORT, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET

Mr. Rappaport. Mr. Chairman, would you want me to read this short paper that I have here? It covers five pages, or would you prefer that I summarize it?

(The statement of Percy Rappaport, Assistant Director of the Bureau of the Budget, is as follows:)

Statement of Percy Rappaport, Assistant Director, Bureau of the Budget

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before this committee today to discuss H. R. 11526, a bill to improve governmental budgeting and accounting methods and procedures, and for other purposes. This bill would implement the major Hoover Commission budget and accounting recommendations, covering those proposals on which legislation either is required or would be desirable to indicate congressional intent. An exchange of correspondence with the President, released on April 29, 1956, reflected executive branch agreement with the objective of the Hoover Commsison recommendations in this field and expressed the President's desire to cooperate closely with the Congress in putting into effect those proposals that are of mutual interest to the legislative and executive branches.

Section 1 (a) of this bill amends section 201 of the Budget and Accounting Act, 1921, and adds three new subsections: 201 (b), 201 (c), and 201 (d).

The new subsection 201 (b) would give effect to Hoover Commisison recommendation No. 7. It provides that appropriations be determined on an annual accrued expenditure basis to the maximum extent deemed desirable and practicable by the President. Appropriations on this basis would cover goods and services to be received in a fiscal year and would also include amounts necessary for advance payments, progress payments, and such other payments as are authorized to be made in such fiscal year.

We can see many advantages in this proposed change to both the legislative and executive branches. We believe that appropriations on the accrued expenditure basis would be a means for promoting more cost consciousness and for focusing attention more clearly on the work to be done in the budget year and the cost of that work. It would take into consideration the changes in inventory levels and other resources between the beginning and end of the year.

This is not, however, necessarily linked with the other proposals in the Hoover Commission report for improved budgeting on an accrued cost basis. There is more difference of opinion on this proposal than the others. Therefore, while we urge that the Congress adopt the accrued expenditure basis for appropriations as an objective, we welcome the flexibility allowed in the bill which will enable it to be implemented in an evolutionary manner over a considerable period of time.

In addition to appropriations on the accrued expenditure basis, it will be necessary for the Congress to provide authorizations to create obligations in advance of appropriations where lead time is such that it is necessary to award contracts and issue orders in the budget year for the delivery of goods and services in the subsequent year or years. Such authorizations will be particu-

larly needed for programs dealing with construction, procurement and production, and research and development. Funds would be requested to cover payment of obligations insurred against such authorizations in the year in which the goods and services are to be received, as part of the accrued expenditure appropriations for that year. This would not be put into effect, however, until after the agency accounts have been placed on an accrued expenditure basis. It will, therefore, not be operated the same as the contract authority during and immediately after World War II, since full cost estimates will be available. The authority to create obligations in advance of appropriations when authorized by Congress is now contained in section 2 of the Budget and Accounting Act, 1921, as amended, which includes the following: "The term 'appropriations' includes, in appropriate context, funds and authorizations to create obilgations by contract in advance of appropriations, or any other authority making funds available for obligation or expenditure." However, for the purpose of clarification, the committe may wish to deal with the points discussed above in its report on the bill.

The new subsection 201 (b) provides that certain types of appropriations are not subject to the accrued expenditure basis. Such appropriations generally cover payments which, by reason of law, are required to be made, or additions to working capital or revolving funds.

The new subsection 201 (c) provides desirable flexibility for the transition to the accrued expenditure basis of appropriations. In some cases a considerable period of time may be necessary to bring about the needed changes in the budget and accounting practices in the agencies.

We are also in agreement with the new subsection 201 (d), which provides that at the end of each fiscal year, for appropriations made on an accrued expenditure basis, the difference between the actual accrued expenditures for the year and the amount of the appropriation would lapse, and the amount, if any, representing accounts payable would be merged with the appropriation or funds for the same general purpose for the ensuing fiscal year and constitute a single account.

Section 1 (b) would implement recommendations Nos. 3 and 6 of the Hoover Commission report on budget and accounting. It provides that requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets. It also requires the use of cost-based budgets within the agencies for management purposes. We are in full accord with these provisions. At the present time 4 appropriations are included in the President's budget on a cost basis and in 37 other cases cost-based budgets are presented in the budget justification material and used in our examination of budget requests. In such cases costs are reconciled to total obligations under the present method of appropriating.

Section 2 (a) of the bill would give effect to Hoover Commission recommendation No. 5. This requires consistency on accounting and budget classifications, and synchronization between budget and accounting classifications and organization structure to the extent practicable, and calls for supporting information on costs and performance of organization units. We have been working toward these objectives under the joint accounting program. Common classifications are essential for an effective budget and accounting system, and performance information for organization units provides a well-rounded budget presentation.

Section 2 (b) would require agency use of accrual accounting systems that incorporate adequate monetary property accounts. This would give effect to Hoover Commission recommendations Nos. 14 and 16. This has been a major objective of the joint accounting program, but considerable work remains to be done. Such systems will serve management more effectively and are necessary to the use of cost budgeting.

Section 2 (c) is necessary in the framework of existing legislation in order to make the new section 113 (c) on accrual accounting applicable to the Post Office Department.

Section 3, the last section of the bill, covers Hoover Commission recommendation No. 13. This provides the desirable objective of simplifying the allotment structure. Progress along this line has already been made by some agencies.

In summary, we believe H. R. 11526 is a desirable piece of legislation. It should contribute to major improvements in financial administration in the Federal Government. It has our full support.

The CHAIRMAN. Are there any questions?

Mr. PINCUS. I have only one question, Mr. Chairman. In view of the fact that the requirement for accrued basis for appropriation is not mandatory and that there is no fixed time, no requirement that it apply to any particular agency, what would be the effect in terms of presenting a budget based from time to time in some part on this basis and in some part on the present basis?

Mr. RAPPAPORT. I don't think it would offer any practical difficulties.

Mr. PINCUS. And it wouldn't interfere with the clarity of the picture presented to the Congress?

Mr. RAPPAPORT. No, sir; not in my opinion.

Mr. HENDERSON. Mr. Rappaport, you may have noticed that on page 21 of Mr. McNeil's testimony he suggested the inclusion of a provision. I wondered if you felt that was necessary or desirable?

Mr. RAPPAPORT. Well, I referred to it in my statement here. I can reply to it this way: That our legal counsel does not think it is necessary. He thinks the bill as now worded is sufficiently clear. However, if your committee wishes to clarify it either in the legislation or in the committee report, we would have no objection.

Mr. HENDERSON. Now, Mr. Rappaport, these accounting terms such as accrual method, cost-based budget, and so forth, have been used very widely and in the legislation there is no definition of those terms. Do you feel that there is sufficiently general consensus as to their meaning to pass this legislation without any precise definitions of those terms?

Mr. RAPPAPORT. Yes; I think so. I think you will find that accounting literature is sufficiently clear to define these terms so there could be no confusion.

Mr. HENDERSON. In Government accounting?

Mr. RAPPAPORT. Yes, sir.

Mr. HENDERSON. And in line with Mr. Pincus' question, I notice that the Hoover Commission recommendation No. 7 was to the effect that the whole budget of the Government be put on an accrued-expenditure basis, whereas under this bill and in your testimony and that of Mr. McNeil and others, you suggest that maybe a combination of the obligation system and accrued system be preferred. Do you agree with the Hoover Commission on that?

Mr. RAPPAPORT. No; I would prefer to see the change performed on a gradual basis, because to wait until this is completed in every agency would be entirely too long a period. And there would always be cases where there could be a difference of opinion as to whether a particular agency is ready to switch over to the new concept.

The CHAIRMAN. Thank you very much, Mr. Rappaport.

Mr. RAPPAPORT. Thank you very much.

FURTHER STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL; ACCOMPANIED BY JOHN MOORE, ATTORNEY, OFFICE OF THE GENERAL COUNSEL, GENERAL ACCOUNTING OFFICE

Mr. BRASFIELD. We will endeavor to make our presentation quite brief.

Chairman DAWSON. Don't think of me, just make it easy on yourself. We will be glad to entertain any discussion you may wish.

Mr. BRASFIELD. I would like to state that I am accompanied by Mr. John Moore, of the Office of General Counsel. We have a prepared statement available for the record, if you wish, and I would just like to comment on a few of the essential points.

Chairman DAWSON. We will include that in the record.

(The statement of Karney A. Brasfield, Assistant to the Comptroller General, is as follows:)

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to appear before you to endorse the provisions of H. R. 11526. This bill contains legislative provisions necessary for the effective implementation of the recommendations contained in the Budget and Accounting Report of the Hoover Commission. Certain recommendations pertaining to the settlement of claims and the relief of accountable officers have been covered by legislation already enacted or being separately considered.

In summary, the provisions contained in this bill are designed to accomplish two broad objectives:

1. Improve financial administration in the executive branch, and
2. Substantially strengthen congressional control over the financial affairs of the Federal Government.

Fully effective financial administration requires the use of many tools. It cannot be accomplished solely by legislation. However, legislation can be most helpful by establishing congressional objectives and in creating a framework within which continuing improvements will be greatly stimulated. We regard such legislation as an essential step to pave the way for the accomplishment of the much needed improvements recommended in the Budget and Accounting Report of the Hoover Commission.

Some would say take only a partial step in current legislation in view of the need to develop more adequate programing, budgeting and accounting in some quarters before the final objectives can be reached. It is our view that action will come much faster if the ultimate objectives are adopted as a matter of congressional policy now, with the full recognition that implementation must necessarily be undertaken through an evolutionary approach over a considerable period of time. By the same token, it is apparent that all procedural questions cannot be completely answered except by specific application of the underlying principles case by case. Here again, if the decision to move forward were to be delayed pending detailed consideration of every eventuality the chances for current progress would be slim.

If present practices were highly effective, a reluctance to accept changes would be understandable. However, the lack of cost data to adequately support past actions and proposed plans in many situations, and the huge unexpended balances to which the formal processes of congressional control do not apply, furnish ample evidence of the need for improvement.

There is one other general observation which seems appropriate. We think that it should be clearly understood that, in order to obtain full benefit of the Hoover Commission recommendations, the new methods of control recommended should not be merely layered on top of the present fund controls which have often been employed administratively in a manner which handicaps rather than helps in the effective exercise of management responsibility. Nothing could be further from the intent of the recommendations as we understand them. A fresh and constructive viewpoint based on a willingness to accept new ideas, appropriately adapted to the particular situation involved, is essential if progress is to be made.

H. R. 11526 sets forth congressional policies and objectives which would be put into practice by the executive agencies under rules and procedures to be developed by the Bureau of the Budget and, in some cases, by the Comptroller General. In other words, the bill would prescribe no hard and fast procedures and the practical aspects would need to be worked out in collaboration with the agencies in the same general manner as other similar provisions of law are now applied. Moreover, there must necessarily be an evolutionary approach to the attainment of the objectives contemplated by the bill.

Section 1 (a) of the bill adds a new subparagraph to section 201 of the Budget and Accounting Act of 1921 to provide that the contents of the annual budget

shall include information on program costs and accomplishments in such form and detail as the President may determine and at such times as he may consider practicable. Such information should permit the Congress to give consideration to both the relative size of programs and the question of economy and efficiency, as proposed in the first part of recommendation No. 4 of the Hoover Commission report. It is in terms of accomplishments and their costs, and not merely in terms of appropriations and obligations thereunder, that the President and the Congress can most readily determine what the real costs were and what was obtained for those costs.

ANNUAL ACCRUED EXPENDITURE BASIS OF APPROPRIATIONS

Section 1 (a) also adds a new subsection 201 (b) to the Budget and Accounting Act of 1921. This authorizes the submission to Congress of requests for proposed appropriations on the basis of the amounts of annual accrued expenditures, to the maximum extent deemed desirable and practicable by the President. New subsection 201 (c) provides that the timing of the conversion to the annual accrued expenditure basis for stating proposed appropriations shall be accomplished at the discretion of the President.

This change in the basis of appropriations can provide improved control over costs and expenditures if the companion tools of accrual accounting and budgeting on a cost basis are effectively installed by the executive agencies. The annual budget surplus or deficit is measured by the difference between annual receipts and expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress and the President a much greater opportunity to control the level of operations during a particular budget year on the basis of conditions existing in that year. This would mean the elimination of the vast carryover balances now available for expenditure at the discretion of the executive agencies. As matters now stand, Congress has little control over spending once the funds are voted, and the President has limited control over spending after apportionments of authority to incur obligations are made by the Budget Bureau to the agencies. The present situation stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received by the agencies.

Aside from the question of improved control, the annual accrued expenditure basis of appropriations affords a better means of obtaining information needed in relating past accomplishments to present performance and future plans. Under the obligational basis of appropriations the information supplied to the President and the Congress through the budget process is in terms of obligations (contracts, etc.) issued, unissued, and planned for issue. This does not measure currently the cost of progress or performance. It is only when a program is totally completed that obligations approximate costs and then only if all resources have been consumed. Under the annual accrued expenditure basis of appropriations, Congress would require and be supplied with data as to costs in relation to annual periods, the accomplishments obtained and to be obtained for those costs, and the inventories and other assets on hand, as well as the new money required to carry on the program.

It is sometimes asserted that expenditures are the inevitable result of the granting of obligational authority. Although some form of authorization precedes the actual expenditure of funds it is not inevitable that the amount of appropriations made in terms of obligating authority becomes the measure of ultimate expenditures. The large carryover of unexpended appropriations under the present method is an obvious example in point. An examination of the present day practices in the long lead-time area (procurement, construction, and research and development) involving extensive reprograming, a multitude of changes in engineering plans and specifications during the period of production of many items, and similar factors, disclose the many changes made after obligating authority has been granted. Because of these inherent factors in the operations involved, cost budgets, teamed with appropriations on an accrued expenditure basis, would require a type of continuing budget presentation that would bring out the adequacy of management planning or the lack of it and give the Congress an opportunity to have a voice in setting the level of operations from year to year.

It is inherent in an accrued expenditure basis for budgets and appropriations, as provided in this bill, that congressional authority be granted as necessary for the advance planning which precedes the phase of operations covered in an

annual accrued expenditure appropriation. The Hoover Commission noted this necessity in its discussion preceding its Recommendation No. 7. However, we believe that the necessity for forward planning authorizations should be determined by the Congress for each type of situation.

This authority has been exercised in the past by the Congress in the form of "contract authorizations" but it is significant that both "contract authorizations" and subsequent appropriations "to liquidate contract authorizations" were stated in terms of obligational authority. Under the annual accrued expenditure basis of appropriation the initial authorization would be stated in terms of broad authority to make commitments, whereas the annual appropriations would be stated much more definitely in terms of accrued expenditures as specific plans are developed. It is essential that the initial authority, which may cover a forward period sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and appropriations are practical when stated in terms of accrued expenditures. Thus, the use of contract authority, when considered by the Congress to be necessary in connection with the proposed annual accrued expenditure basis of appropriation, is not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

The need for contract authority, or any other form of obligational authority, in conjunction with annual appropriations on the accrued expenditure basis is limited to the areas of operations where forward contracting is required to provide an orderly flow of product. It is not required in operations concerned primarily with salaries, allowances, travel expense, and other current administrative expenses.

In view of the substantial changes that would be required in many agencies to place into effect the accrual accounting and cost budgeting practices needed to support appropriations on an annual accrued expenditure basis, we endorse proposed subsection 201 (c) which permits flexibility in the timing of the change in the method of stating appropriation requests. It is believed that it is essential to approach such a change on the basis of individual programs or appropriations rather than any sweeping across-the-board plan. First of all, the successful use of these practices presumes a basic foundation of adequate accounting and the ability to program effectively. These fundamentals do not exist in a number of significant areas. To endeavor to adopt the annual accrued expenditure basis of appropriation before the groundwork is laid for it could only lead to confusion and unsatisfactory results. Moreover, the greatest advantages to be attained are in the areas of operations involving long lead-time commitments, such as major procurement, construction, and research, and development. These appropriations are relatively few in number and it is logical to prove the value to Congress and the executive branch of the revised practices in such areas before extending the practices governmentwide in the areas where the advantages to be gained are significantly less. The selection of areas to be converted and the timing of the changes should be a matter of mutual determination between the Congress, the Budget Bureau, and the individual agency. In a change of this magnitude there is little to be gained and much to be lost by making uniformity across the board the criterion for adoption.

Subsection 201 (d) is a necessary part of the annual accrued expenditure basis of appropriation to provide that funds not required to finance work performed during a fiscal year shall cease to be available after the end of that fiscal year. It is inherent, however, under an accrued expenditure method of financing that liabilities must be recognized as work is performed. This subsection permits the portion of the appropriation represented by liabilities for work performed but not paid for by June 30 of any year to be carried forward and merged, for payment purposes, with the appropriation for the ensuing year.

COST-BASED BUDGETS

Section 1 (b) of H. R. 11526 amends the Budget and Accounting Act, 1921, by adding new subsections 216 (b) and (c) to provide for the use of cost-based budgets in requests for and establishment of appropriations, and in the administration and operation of the departments and establishments and their subordinate units.

As previously indicated, the basic need of the President and the Congress is adequate factual data as a basis for decision making. The facts furnished to the

President and the Congress can be no better than those available to the management for its own purposes, that is, the needs of the two for financial and operating data, although differing as to extent of detail, are entirely compatible. They require, in our opinion, data which relates accomplishments and future work plans to costs in terms of total resources consumed and to be consumed, and to the resources available in the form of inventories and other assets as well as to new money or authority needed. This type of budget data emphasizes control of total resources on hand and their use, rather than the present emphasis in Government budgeting on spending authority. We, therefore, endorse the use of cost-based budgets, to the fullest extent practicable, as a principal necessity in developing a more meaningful reporting structure to provide full disclosure of agency operations, assets, and liabilities, and effective management control.

In using the term "cost-based budgets," we understand it to have equal application to capital acquisitions and construction as it does to day-to-day operations. For example, a cost-based budget for a procurement activity would relate to the cost of the items being procured or the cost of producing an article or a service. Cost budgeting need not be restricted to consumption operations. However, in considering consumption operations, there is obviously a limit to which the concept can be carried and still have a practical value. For example, careful consideration would need to be given to the extent to which the inclusion of depreciation as a cost would serve a useful purpose in the presentation of budgets to the Congress. This is particularly true with respect to the activities of the Department of Defense. The value and utility of cost-based budgets are certainly not dependent upon the application of depreciation concepts to military hardware.

ACCOUNTING AND BUDGET CLASSIFICATION

Section 2 (a) of the bill is intended to achieve, insofar as possible, clarity in patterns of financial management in the executive agencies. Our previous comments on the annual accrued expenditure basis of appropriation and cost-based budgets are equally applicable to this section. Programing, budgeting, accounting, and reporting must be on consistent terms in each executive agency if programs are to be adequately evaluated and judged at all times, from the initial stages of projection, through planning and operation, to completion, in relation to their costs and accomplishments and the organizational units involved.

The attainment of these important objectives will require close cooperative working relations between the General Accounting Office, the Budget Bureau, and the individual agencies. We are prepared to contribute our best efforts to this end.

ACCRUAL BASIS OF ACCOUNTING

Section 2 (b): The maintenance of accounts on an accrual basis, provided by this section, is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill. It is by the use of the accrual basis, to the fullest extent appropriate, that accounting can make its greatest contribution to full disclosure of and control over all assets, liabilities, income, expenditures, and results of operations of the executive agencies.

Experience under the joint accounting improvement program clearly indicates the advantages of the accrual basis when applied to significant items. Our statement of accounting principles provides for the appropriate use of this method of accounting. We believe its use should be expanded throughout the Government. We also believe that adequate monetary property accounting records must be kept as an integral part of accounting systems maintained on the accrual basis to supply the financial information regarding property accumulations and uses required by executive agency management and the Congress.

The provisions of this bill concerning the annual accrued expenditure basis of appropriations, cost budgeting, consistency and synchronization of budget, accounting, and organizational patterns, and the simplification of the allotment system will, individually and collectively, provide great stimulation to the establishment of appropriate accrual and cost accounting in the executive agencies.

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

Section 3: The simplification of the allotment system for allocating funds is proposed in section 3 of this bill is sound and most desirable. The existing unwarranted subdivisions of funds is one of the greatest deterrents to improved financial management. We believe that administrators may be willing to forego

the voluminous and detailed type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control. Better programing tied in with improved accounting through development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Mr. BRASFIELD. In summary, the provisions of H. R. 11526 are designed in our opinion to accomplish the two broad objectives of improving financial administration in the executive branch, and to substantially strengthen congressional control over the financial affairs of the Federal Government. And it is the latter that I would like to develop very briefly.

The bill contains the essential financial provisions of the Hoover Commission report which I might recite very briefly are cost budgeting, with program costs; accrual accounting, including adequate monetary for property; accrued expenditure appropriations; the simplification of allotments or subdivision of funds; and common classifications for accounting and budgeting, including the synchronization of those classifications with organization.

As to the congressional control aspect of this legislation, our comment on the Hoover Commission report is perhaps particularly appropriate, in that the Comptroller General is an arm of the Congress. He has addressed himself to that part beginning with the submission of a report to your committee in October on the Hoover Commission recommendations.

It is the view of the General Accounting Office that while many procedures have been built into the budget review process which are designed to review carryover authority and long-lead time programs and notwithstanding the efforts that have been made, accrued expenditure appropriations will provide an orderly and logical basis for such a review and will place the operation in a regular channel through consideration of accrued expenditure appropriations as part of the regular budget process, both in the executive branch and in the Congress.

Opinion may well differ as to the effectiveness of the review of carryover authority in past periods. And I think it is quite logical that each sitting in his different place might well have a different view about it. On the other hand, we do know that at the present time the determination of the budget deficit is determined on the basis of expenditures and not the obligational authority appropriated by the Congress in a given year. It seems logical to us that tying the two together, that is the determination of the basis for the budget surplus or deficit with the action of the Congress for that year would greatly strengthen or bring to the forefront in the minds of the Congress the particular media or method by which they could review those actions which would contribute definitely or specifically to the question of balancing the budget in a given year. That doesn't go to the question of determining programs or whether or not the budget should be balanced. That of course, is up to the Congress. But it would give the Congress the vehicle to associate the balancing of the budget with their own appropriation actions of the year.

As to the question of contracting authority, and particularly addressing myself at the moment to the language problem, at the request of the chairman of the Senate subcommittee that considered similar legislation, the Comptroller General gave them a letter on June 6 that

I will read just the last paragraph of, and I would be glad to request the Comptroller General address a similar letter to you if you wish. The conclusion is this, and it deals with the same provisions that are in H. R. 11526:

> It thus seems clear to us that the existing authority to include requests for contract authorization in the budget would not be abrogated by this bill and that the clarifying language suggested by the Department of Defense is unnecessary.

We would be glad to forward a similar letter.

The CHAIRMAN. I would appreciate that.

Mr. BRASFIELD. There is another point I would like to discuss for a moment, and this again may well depend from what viewpoint you look at this problem. And I would add that our comments are directed primarily at the congressional control aspect of it although we think it would be helpful to the central control agencies in the executive branch.

It has been said that the same amount of authority would be carried over under contract authority as the present complete appropriation for a project. That may be a question of words as to how you say it, but there is in our mind this distinctive difference. When an appropriation is now granted for a total project on a no-year basis, the extent of the review of that in subsequent periods becomes a matter of procedure, perhaps a matter of time available, perhaps other circumstances in a particular year whereas the provisions of H. R. 11526 would, to reiterate, provide a logical, orderly process where the Congress must necessarily take another look each year not only at the amount of accrued expenditures to be authorized in that year, but it provides a logical basis to also review the progress under the program and the extent to which contracting authority has been used, or is available.

Now, as to the specifications as to how it should be used, we feel the bill is flexible and puts the authority and the responsibility where it belongs, and that is in the Appropriations Committees.

In other words, the extent to which the Appropriations Committees are willing to grant contract authority, the limitations which they wish to place on it, may well be gaged by the effectiveness with which they think it is being handled. So, this bill leaves in the Appropriations Committees the same power as they have now, the authority or the basis for granting contracting authority, and it also leaves with them the strings that they want to tie to it. So that it may not be a simple, complete, 100 percent operation in every case, that would be a matter for judgment of the Appropriation Committee as each situation comes up.

The committees could exercise their own initiative on the extent of control that they desire to exercise.

Now, as to the question of whether that would raise any problems in dealing with industry, it has seemed logical to us that the best answer to that is to look at the Task Force of the Hoover Commission that made this recommendation. And you will find that without exception they are folks who would have an excellent grasp of that problem from the standpoint of industry. You find among that group the folks who would certainly have an understanding of that problem from a standpoint of the contractor. So, it seems illogical to us to assume that contractors would have much of a problem when this

recommendation is being made by people that are obviously more than adequately familiar with that problem. And you need merely to look at the roster of the task force to ascertain that.

Chairman DAWSON. Will you read that into the record?

Mr. BRASFIELD. I will, sir.

The chairman of the task force was J. Harold Stewart, Boston, Mass., certified public accountant.

The members were:

Dudley E. Browne, Burbank, Calif., comptroller, Lockheed Aircraft Co.;

H. E. Humphreys, Jr., Scarsdale, N. Y., president and chairman of the board of United States Rubber Co.;

Christian E. Jarchow, Chicago, Ill., executive vice president of the International Harvester Co.;

Gwilym Alexander Price, Pittsburgh, Pa., president of the Westinghouse Electric Corp.;

Kenneth C. Tiffany, Royal Oak, Mich., vice president of Burroughs Corp.; and

John David Wright, Cleveland, Ohio, president of Thompson Products, Inc.

Most of those men came up through the financial end of their businesses, as the descriptions of their backgrounds in the Budget and Accounting Report of the Hoover Commission, June 1955, shows. We think that answers pretty logically the question of whether this will work as far as industry is concerned.

I believe that covers the points that we think are particularly pertinent in the light of the discussion that has taken place. And I will be glad to answer any questions you may have.

Mr. LIPSCOMB. I have no questions.

Mr. HENDERSON. Mr. Brasfield, do you feel that these terms which are used in this bill, such as cost basis, budget-accrual system of accounting, are sufficiently clear and generally understood that no precise definition of them needs to be put into the bill?

Mr. BRASFIELD. I do think that they are sufficiently clear. The understanding of their use, both through their description in the Hoover Commission report, and the wealth of material that has gone along with it in the review of the report is clear enough, as well as some of the existing instructions of the Bureau of the Budget relative to submission of cost-based budgets.

We would be inclined to think it would be a mistake to try to write a precise one-sentence definition. In the first place, it would have to be so general that it would not answer many of the procedural questions that may arise, but more important we think that the regulations to be issued by the Bureau of the Budget is the place to deal with the problems of the agencies.

As a matter of fact, we think it would be desirable to have a degree of variation in budget presentations by agencies so their cost budgets can be fitted to their own individual problems for the same reason that you would not try to prescribe a uniform accounting system for all agencies.

For example, in the Budget and Accounting Procedures Act of 1950 that was sponsored by this committee, it gives the Comptroller General the opportunity to prescribe accounting principles and standards, but not detailed bookkeeping systems. Much the same thought applies

here that the Bureau of the Budget should work out with the agencies the degree of uniformity that may be necessary to appropriately present the budget, but, on the other hand, have a degree of flexibility that will permit an agency to present their story in a way that best tells that particular story.

In other words, the factors and elements and the manner of presentation that is most understandable for the business that they happen to be in. And, as you know, across the length and breadth of this Government we are in just about every business in one way or another. Much of the background of this has already been development under the budget provisions of the Government Corporation Control Act where the business-type enterprises have been submitting essentially cost budgets for a number of years, approximately 10 years. So these are not completely new ideas, nor are they untried, and we do believe that it is desirable to have a relatively high degree of flexibility in the presentation.

Does that answer your question?

Mr. HENDERSON. Yes; thank you.

Chairman DAWSON. Thank you very much, Mr. Brasfield, for a very fine presentation.

Mr. BRASFIELD. Thank you, sir.

STATEMENT OF LLOYD MOREY, CERTIFIED PUBLIC ACCOUNTANT, URBANA-CHAMPAIGN, ILL.

Chairman DAWSON. A statement has been presented by a witness who is a very distinguished gentleman of our community. I am going to ask him to submit his statement for the record and make us an oral statement, if he wishes.

Gentlemen, this is Mr. Lloyd Morey, a certified public accountant of Urbana-Champaign, Ill., president emeritus and former comptroller and professor of accountancy of the University of Illinois.

Mr. MOREY. Mr. Chairman and members of the committee.

Chairman DAWSON. Your written statement will be placed in the record.

(The prepared statement of Mr. Morey is as follows:)

STATEMENT OF LLOYD MOREY, CERTIFIED PUBLIC ACCOUNTANT, URBANA-CHAMPAIGN, ILL.

GENERAL COMMENTS

In earlier years, budgeting, accounting, and financial reporting in the Government were largely confined to estimating and reporting of (*a*) obligations incurred, and (*b*) cash disbursements. Both of these are important and cannot be dispensed with. However, there is need for additional accounting in terms of expenditures accrued (costs incurred) representing services received and material used (whether consumed or applied to capital projects) during the period under review. Such accounting covers assets acquired, liabilities incurred, available balances, and property on hand, both consumable and fixed. This accounting does not replace appropriation, obligation, and disbursement accounting, but supplements and expands it. There is also need for simplification of current procedures of subdivision of appropriations, particularly in reference to the number of allotments.

These problems receive the active consideration of the (Hoover) Commission on Organization of the Executive Branch of the Government, which recommended (1955) that both budgets and accounts be maintained and presented on the accrued expenditure or cost basis. Unfortunately, the recommendations

failed to recognize the necessity for continuation of obligation and cash accounting, leaving the implication (perhaps unintentionally) that these are unnecessary. This conclusion is not valid, because:

(1) Before any obligations can be incurred or expenditures made, funds must be appropriated or other authority given by the Congress;

(2) The first requisite in the management of appropriated funds is that obligations be kept within the limits set thereby. This means that each agency must continue to account for obligations incurred, and this accounting must be carried on prior to that necessary for determination of costs;

(3) Such accounting and reporting is required under Section 3679, Revised Statutes (Antideficiency Act), and Budget-Treasury Regulation No. 1.

In the discussions of these various systems of accounting, it is sometimes assumed that they are separate and distinct, and should be kept independent of each other. This is neither necessary nor desirable. Appropriations, obligations, costs, expenditures, disbursements, deal with the same transactions at different stages. They can and should be covered in a single integrated system which should also include financial accounting for property, both consumable and fixed.

One of the basic deficiencies of budgeting and accounting in the past, being primarily on the basis of obligations incurred and cash disbursements only, has been to treat materials acquired as an expense at the time of procurement rather than at the time of consumption or use. This can be corrected by an inventory system under which materials acquired are charged to stock accounts and held as an asset until withdraw, at which they are charged to expense or capital appropriations, and stock accounts reimbursed. When this plan is introduced, a major step has been taken toward accrual, or cost, accounting.

Working capital (revolving) funds constitute an excellent medium for handling inventories of consumable materials, as well as industrial- and commercial-type activities set up to provide service for operating agencies. While the use of these funds in the Department of Defense is authorized by the National Security Act, their recognition in laws relating to budgeting and accounting for all agencies would be very desirable.

Much progress toward more satisfactory accounting already has been made or is in progress in many agencies, under the joint program resulting from the Budget and Accounting Procedures Act of 1950. While the Comptroller General under the Budget and Accounting Act is given authority to prescribe the systems of accounting to be used, he has in recent years under the provisions of this act very wisely enunciated general standards only and left the initiative to the departments to develop their own systems subject to his approval. The Bureau of the Budget recently has established an Assistant Director for Accounting, to more closely integrate budgeting and accounting.

The main responsibility for adequate accounting rests on the various departments and establishments. In the Department of Defense, which carries approximately 61 percent of the total budget, the primary responsibility for accounting policy is lodged in the Assistant Secretary of Defense for Financial Management (Comptroller) working through similar officers in the several military departments. The Department has a plan for a unified and integrated system of financial administration for all its departments. It is designed to meet all needs of budgeting, accounting, reporting, and auditing, in a manner which will most fully aid the management of its various activities. Substantial progress toward its introduction already has been made, and the several military departments are in the process of developing detailed systems which will coordinate with the unified plan.

Most of the Commission's recommendations doubtless have received or will receive full consideration by the joint program and by the various agencies, and be applied to the extent found practicable. This is preferable to having detailed accounting procedures covered by statute, other than those necessary to secure the proper information needed by the President and the Congress.

COMMENTS ON H. R. 9402

H. R. 9402 is a bill which would implement a number of the recommendations of the (Hoover) Commission (1955) with respect to Budget and Accounting.

While in general these recommendations are meritorious, H. R. 9402 includes a number of provisions which in my opinion are unnecessary or undesirable. Since most of the criticisms of the bill have previously been voiced by the Budget Bureau and the Department of Defense, I will not detail them here.

The proposals relating to improved budgeting and accounting, while having a desirable objective, are not stated with sufficient clarity and completeness to make them satisfactory.

H. R. 9402 should not be approved in its present form.

S. 3897 contains most of the more desirable features of H. R. 9402, and omits most of the undesirable provisions. Therefore, it should be given preference over its predecessor.)

COMMENTS ON H. R. 11526

This bill deals with two subjects, budgeting and accounting. It proposes that both of these be changed from the present "obligations incurred" basis to an "annual accrued expenditure" or cost-based plan. While the time and extent of making such changes as to budgeting is left in the hands of the President, the implication is that they be done as soon as practicable.

That these objectives are in general desirable is not questioned. However, two serious problems present themselves as to the immediate application of the accrued expenditure (cost) basis to budgeting:

(1) Expenditures cannot be made for the most part without previously incurring obligations. In such operations as those of the Department of Defense, and possibly other cases, obligations cannot be limited to or brought to maturity during a fiscal period; many extend a number of years into the future and do not become expenditures until some future period. Nevertheless, obligations involving future expenditures must be incurred and authority for incurring such obligations must be granted in some manner. Consequently, in addition to budgeting for expenditures to accrue during a given fiscal year, budgets for obligations to be incurred during that year, and the period in which it is anticipated they will have to be liquidated, also are needed.

(2) In order for an agency to be able to estimate its accrued expenditures for a fiscal period, it should have had experience in accounting on such a basis for a reasonable period in advance of undertaking such a budget plan. This is not the case at the present time. Consequently, it would be desirable to defer the application of the requirement for budgeting on an accrued expenditure basis, until some later date, after accrual accounting has become generally established. While considerable progress toward accrual accounting has been made, many activities still maintain their accounting primarily on a cash basis.

For these reasons, it is recommended that section 1 (a) be deleted, and action on the matters covered by it deferred.

If it is felt that this should not be done, then the following changes in section 1 (a) are recommended:

Subparagraph (b) page 2, line 9, add: "in addition to consideration of obligations to be incurred which will be payable in future periods."

The reasons for this addition are set forth in the discussion immediately preceding.

Subparagraph (b) page 2, line 10: change the words "relate to" to "cover the estimated cost of."

The words "relate to" are vague and should be replaced by words having more definite meaning in the context. Also, the use of the word "cost" at this point will strengthen and clarify the relation between this paragraph and line 2, same page, and the phrase "cost-based budgets" in subsections (b) and (c), page 3, line 24, and page 4, lines 1 and 4.

Subparagraph (b), page 3, line 3, add after that line: "Nothing contained herein shall prevent the presentation of requests for authority to enter into obligations which shall become due and payable in future fiscal periods in excess of appropriations for the current fiscal period determined on an accrued expenditure basis as herein provided."

Changes recommended in other sections of the bill are:

Section 1 (b), subsection (b), page 3, line 24, add: "and shall indicate the extent to which authority is requested to incur obligations for each fiscal period in which such costs are expected to accrue."

The reasons for this addition are the same as those indicated in the discussion of section 1 (a).

Section 2 (b), subparagraph (c), page 5, line 1:

(1) Insert after the word "maintained", the words: "as fully as practicable."

There are many problems involved in applying the accrual basis of accounting to Government operations, not faced in industry or in the Government corporations, where this method is rather rigidly followed without serious difficulty. Some leeway should be allowed from the procedures usually followed, to enable

the agencies to deal with these problems in a practicable manner, and without creating a burden of additional work not offset by significant gains.

(2) Insert after the word "show" the words: "in addition to appropriations, funds, and administrative subdivisions thereof, obligations incurred, and cash received and disbursed,".

Section 2 (c), page 5, line 8, after the word "system,", add the following: "the objective of this subsection being a single, integrated accounting system for each agency meeting all accounting requirements."

The reasons for these suggested additions are set forth in previous general comments presented herein.

Mr. MOREY. Ladies and gentlemen, I am here today because of interest in governmental accounting, and have been for a long time, but currently I am serving as consultant to accounting policies in the Office of the Assistant Secretary, Mr. McNiel, and I have come at his request.

I did receive from Senator Kennedy a request for comments on Senate bills 3897 and 3899, which are the companion bills in the Senate to these two in the House. And the statement that I am giving the committee, if it is in their hands, is a statement prepared in relation to those two bills.

However, since the two bills are identical, I will simply say in general that I do not have the benefit of the comments, that is, not all of the observations of the General Accounting Office, and in view of the Bureau of the Budget on these bills before, I prepared my memorandum and so there are some points that I have made that would be somewhat modified by the statements presented by them.

For example, the availability of the contract authority, and a few points of that kind. We are all extremely interested in improving the accounting and financial management in the Government. I have been keenly interested, though not actively, a part of any task force of the work of the Hoover Commission, but I was the chairman of a local citizens committee. I do give general concurrence to its studies and recommend in the field of general budget accounting and the general merit they have.

However, as Mr. McNeil pointed out, they were strongly worded in the direction of making these procedures conform to private business. This is acceptable only as far as such procedures are applicable and there are needs and conditions in the Government not found in nonpublic enterprises.

We want the Government to be conducted on a business-like basis, but that does not necessarily mean like a business in every detail.

Chairman DAWSON. I wish you could make that distinction in other respects. There seems to be a movement to put the Government out of business. I am of the opinion that the Government is our biggest business.

Mr. MOREY. We have features that require financial control stemming from the Congress and extending all the way down through our management that require additional and different systems of accounting over and above many of those that would be matched by those found in private business.

Now, my statement here contains some general comments and more or less similar to those of Mr. McNeil this morning on some of the features of accounting with capital funds, obligation accounting and so forth, and I will not read that statement in detail.

In summary, I would like to say in the time that I have spent here I have been deeply impressed by the efforts that are going on, the con-

structive and excellent efforts that are in progress to improve the accounting and financial management in the Department of Defense. I have been impressed also by the fine cooperation that is going on between that Department and the Bureau of the Budget and General Accounting Office under the provisions of the Budget and Accounting Procedure Act of 1950.

We must recognize that the Department of Finance is probably the most complex and most extensive, the most intricate business operation in the world. It takes time to work these things out, and I realize that we become impatient at the slowness at which these things work, but direction is more important than speed in these matters and we should be sure that the direction is right rather than merely to accomplish results quickly.

First I would want to say, as I have said here, that with great respect to my fellow CPA, Congressman Lipscomb, that I do believe House bill 11526 is a superior bill to House bill 9402. It seems to me the latter contains quite a few things unnecessary, subjects of legislation, and as I believe, the other departments concerned have voiced, some of the things are not altogether desirable.

House bill 11526 contains desirable objectives. I am inclined to believe that most of them will be accomplished under existing laws, can be accomplished under existing laws of machinery probably as rapidly and practically and they will be accomplished.

On the other hand, I recognize that the stamp of approval on the part of the Congress to some of these principles would probably——

Chairman DAWSON. Not the stamp of approval, but the legislative authority or mandate to go and do it.

Mr. MOREY. Authority and direction that needs to be done as rapidly as practicable. It is therefore a matter of time. My first feeling was that the provision under section 1 (a) for accrued expenditure basis for appropriation should be deferred until the departments are more fully on accrued accounting basis as far as their records are concerned because they have to have accounting records to carry these out.

However, the provision that this would only be done and the assurance it will only be done as fast as it is practicable to carry it out, perhaps mitigates against that objection. I do feel that there are some additional changes in the bill that are needed in the way of clarification of the relation of obligation accounting to the accrual accounting system, minor changes in phraseology, and a few things like that which I will not detail because they are set out.

Chairman DAWSON. Did you detail them in your statement?

Mr. MOREY. They are detailed in the memorandum.

Chairman DAWSON. All right. Thank you.

Mr. LIPSCOMB. Now, you mentioned, sir, that things do not necessarily have to move rapidly but in order to get things done, just in the right direction. Why do you think it is that the Bureau of the Budget has not put some of these improvements into effect until the Hoover Commission recommended them? I mean, they seem rather obvious on the face of them.

Mr. MOREY. I think we will all admit that the traditional accounting methods in the Government have been based probably on the cash-disbursement basis; have not been such to provide the best results. Why we haven't moved forward in earlier years, we are definitely along

that line, I am sure. I was chairman of a committee of accountants in the late thirties, more or less at the time of the select committee, I think it was called, which was in operation at that time, which was raising questions about budgeting and accounting and those things did have a great deal of consideration.

On the other hand, the war interrupted many of these changes that many people would understand. How they work in the Hoover Commission and other task forces is to serve to emphasize these, but to me the great piece of legislation was the Budget and Accounting Act of 1950, which set up a general pattern of cooperation and I am sure the reports that have been issued in those years indicate that the matter has not stood still by any means.

There are many places in the Government where most of the provisions of this proposed legislation are now being accomplished.

There are many places in the Department of Finance where, to a considerable extent, these things are being accomplished. So far as the accounting and financial management are concerned, they are being accomplished.

Mr. LIPSCOMB. Do you have any feeling about the recommendations of the Hoover Commission, for instance, with respect to the Bureau of the Budget, or with respect to the exchange of correspondence between the President and the Bureau of the Budget, setting up a director of accounting? Do you have any feelings about enlarging the staff or putting the staff members into the different agencies, that type of relationship?

Mr. MOREY. I feel that that general movement is decidedly in the right direction with respect to bringing a closer coordination and integration between budgeting and accounting. And accounting on budgeting. We have not had enough of that kind of coordination integration in the past. The provision by the Bureau of the Budget which has already gone into effect for accounting differences in the Bureau should bring about excellent results in that respect.

Now, perhaps your question was directed as to how closely the Bureau of the Budget should be integrated into the other agencies like the Department of Defense. I would, from my limited observation, be inclined to concur with Secretary McNeil that the present plan of integration is good, and I would doubt whether it would be desirable to modify that entirely along the lines of the Hoover Commission recommendations.

Mr. LIPSCOMB. With your knowledge of it, do you feel it has been sufficient?

Mr. MOREY. I think, considering the time, I mean to say I think much has been accomplished. I don't mean to say that it has brought about perfection in the budgeting methods, but it seems to me from observation that there is a good correlation existing between the two and they are not moving hand in hand to constant improvement of the budget.

Mr. LIPSCOMB. Do you see any objection to the Congress writing in some legislation stating that they believe these things should be done?

Mr. MOREY. Well, I think I would defer to the judgment of the Bureau of the Budget, if I understand correctly, on the previous comments which I did have the privilege of seeing on 3119, in which it apparently held to the view that closer integration of the Bureau of the Budget into the affairs of the different departments would not

be necessary and that they had already taken steps to set up a division of accounting that in their judgment would accomplish the objectives here in an adequate amount without legislation.

Mr. LIPSCOMB. Maybe I don't have the same feeling that this will be carried forward expediently, as you do, without some direction. I believe that you indicated that you concurred with the bill H. R. 11526, except that you feel that perhaps it shouldn't go into the accrual base of budgeting.

Mr. MOREY. I am not saying that I object to accrual basis of appropriation. I concur in that as a principle. My statement that I made here is that I am sure that couldn't be accomplished immediately, that time would be required, and I raise the question of whether perhaps the legislation requiring it should not be deferred.

There is a saving clause here that protects the agencies in that respect, and Mr. Brasfield and Rappaport both referred to that, I believe. And assuming that will be, and undoubtedly will be applied, one could not raise any serious objection to that.

Mr. LIPSCOMB. I believe, in my opinion, the way I look at it, that is why that type of legislation was left out of the H. R. 9402, because it was thought that they had to do the groundwork first before they could get into that function.

Mr. MOREY. That is the point. It will be unnecessary for the Department to build up an accounting system generally on accrued expenditure and cost basis before they really have adequate information to present budgets which would be expected to form the basis of appropriations.

Of course, I am most concerned, as my comments indicate, that there will not be any loss of the recognition of the necessity for obligation accounting, and appropriate control of all points, and ascending to accrued expenditure and cost basis.

These things can be fully integrated and into a single accounting system and should be.

Mr. HENDERSON. Mr. Morey, did you say you were generally in favor of the accrued system?

Mr. MOREY. Yes, indeed.

Mr. HENDERSON. But you are also in favor of the obligation system?

Mr. MOREY. By all means. I mean the obligation accounts—and those were what we call generally budgetary accounts—cannot be dispensed with in my judgment. And they should be part and parcel of the general accounting system. An accrued expenditure and cost analysis can flow readily out of and be an integral part of the fund and the appropriation accounting system. And that is the system to develop.

Mr. HENDERSON. You don't agree with the Hoover Commission in the weaknesses of the obligational system?

Mr. MOREY. I have heard that it would appear that the Hoover Commission may not have given adequate consideration or had an adequate recognition of the importance of the obligation and cash accounting, in the Government departments, and thus perhaps unintentionally left the implication that these are unnecessary.

Now, I know that there has been denied by the Chairman of the Task Force on Accounting, and I do know also that in the task force report the statement is clearly made, because I have the report here—I hope I can turn to it quickly—that such an accounting is essential;

that is, it cannot be dispensed with; yet all of the emphasis—I am sorry I can't turn to that at the moment—all of the emphasis, however, is on the accrual basis and on the cost basis and virtually no mention of the continuing and equal necessity for obligation.

That is why one finds himself a bit anxious to know what the Commission—I am sorry I can't find that, but Mr. McNeil was right in his statement that the control of appropriations, appointments, and allocations and allotments and obligations are at all times essential, and that should be an integral part of the accounting system.

Of course, those are necessary for reporting to the Government agencies and to Congress so they cannot be dispensed with. Recently I heard one of the management, one of the defense departments say it is not enough for me to know what the expenditures have been, that is too late. I must know what my commitments, my obligations are at all times.

Mr. HENDERSON. Do you feel that the existing obligational system could be improved to the extent that Congress would have both the knowledge and the control that it should have, we will say, without installing a new accrual method or cost basis?

Mr. MOREY. I think it can be improved, and rather substantially. Of course, there are many reports made now. For instance, the Budget-Treasury Form No. 1, which goes every month to the Bureau of the Budget and to the Treasury on every appropriation made by Congress. It shows the exact status of each and every appropriation.

So, there is a wealth of complete reporting now, but it may not be brought together. It may not be coordinated because the monthly cash report of the Treasury is only the appropriations and disbursements. It does not reveal the extent to which appropriations are obligated.

Mr. HENDERSON. Thank you.

The CHAIRMAN. I notice, Mr. Morey, that in stating your qualifications and your background you said that you were a member of the committee to bring into being or to implement or cause acceptance of the Hoover recommendations.

Mr. MOREY. Yes.

The CHAIRMAN. Now, that committee has set out on a job to have them put into effect, either by legislation or administrative act, all of the Hoover recommendations, and, yet, in this particular one in your field you make excuses for their recommendations. You don't want to abide by them, they did not give it enough thought and so forth and so on.

Why couldn't that be true in every other recommendation they made and why would you belong to a citizens group to implement the Hoover recommendations or to bring them into being without having them studied and without having studied all of them and their background?

Mr. MOREY. I want to say that when the earlier recommendations of the first Commission were before Congress I raised certain questions at that time myself, even though in general and in broad principle I was supporting, and as you say, at a citizen level, as a citizen, actively supporting the efforts of the Hoover Commission to improve our Government management.

The CHAIRMAN. And yet the one in your particular field where they differ with you, then you don't want it put into operation, but in all

those fields that you are not an authority, they must be the law and they must be right and we must put them into effect.

Mr. MOREY. I think you are reading a little too much in the statement I made, fellow citizen of Illinois, but the questions that I raised are in their practical application rather than on the broad principles.

The CHAIRMAN. I find that even among the different agencies they all are for the Hoover Commission except those that affect them.

I notice that there is a tendency for us all to be for reform until the reform strikes us. Then we want to do it the old way, and so forth and so on, like we have been doing it.

Particularly my attention was called to that human trait where you agree with the Hoover Commission except in the respect that you did not believe that they were right when they wanted to do away with all this old system of accounting and bring in this new one. You don't want to do away with it all, you want to use part of that and use part of the new.

Mr. MOREY. Use the thing that is essential, add to them the things that are now missing that are also essential.

The CHAIRMAN. Any other questions?

Are there any further witnesses?

Here is a letter we want introduced into the record from the chamber of commerce.

(The letter referred to is as follows:)

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D. C., June 12, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House Office Building, Washington 25, D. C.

DEAR MR. DAWSON: The Chamber of Commerce of the United States strongly supports the underlying principles of H. R. 11526, which would put into effect important recommendations of the Commission on Organization of the Executive Branch of the Government with respect to budget and accounting procedures. In hearings held earlier by your subcommittee, Mr. M. C. Conick testified for the chamber in support of H. R. 9402, which in many respects is similar to this measure, both in scope and objective.

On comparing H. R. 11526 with H. R. 9402, we note that the new measure contains improvements in language, and we are particularly gratified at the inclusion of the section directing development of an accrual system of budgeting and appropriating.

We note also, however, omission of certain provisions of S. 3199 and H. R. 9402 which we think should be included. I have particular reference to those dealing with the regular assignment of budget examiners to each agency, the establishment of agency comptrollers, the provision for a staff office of accounting, and the requirement of performance reports, all of which also were recommendations of the Commission.

While the acts of 1921 and 1950 gave the Bureau of the Budget discretionary authority to take steps along these lines, nothing has been done. It would be helpful if Congress would make them mandatory as provided in S. 3199 and H. R. 9402.

We will appreciate it if you will make this letter a part of the record of your committee's hearing on H. R. 11526.

Cordially yours,

CLARENCE R. MILES.

The CHAIRMAN. Thank you very much, Mr. Morey, for your contribution, and thank you, gentlemen, and also the members of the press for your presence here with us today.

(Whereupon, at 2:30 p. m., the subcommittee adjourned.)

BUDGET AND ACCOUNTING

TUESDAY, JUNE 19, 1956

House of Representatives,
Executive and Legislative Reorganization Subcommittee of the Committee on Government Operations,
Washington, D. C.

The subcommittee met, pursuant to notice, at 10:05 a. m., in room 1537, New House Office Building, Representative William M. Dawson (chairman) presiding.

Present: Representatives Dawson, Brown, Jonas, and Hoffman.

Also present: Representative Lipscomb; Elmer W. Henderson, subcommittee counsel; William Pincus, associate general counsel; and Ann E. McLachlan, clerk.

Chairman Dawson. Will the subcommittee please come to order.

This morning our subcommittee continues its consideration of H. R. 9402, H. R. 11526, and other measures to alter our present system of budget and accounting in the Federal Government.

We have as our witnesses today the chairman of the Committee on Appropriations, Hon. Clarence Cannon, and the ranking minority member of that committee, Hon. John Taber.

Certainly, this committee, by virtue of its experience in the Congress, would not feel free to recommend any legislation dealing with appropriation matters until these two Congressmen who have had such a broad and long experience in handling the money of our country would pass upon the legislation involved.

We are indeed honored to have both these gentlemen with us today. One is the chairman when one party is in power; the other is the chairman when the other party is in power. Between the both of them, we have a wealth of experience on this subcommittee that few other committees can get.

At this time, did you gentlemen have any order of procedure?

Mr. Cannon. Off the record just a minute, please.

(Discussion off the record.)

Chairman Dawson. Will you proceed, Mr. Cannon?

STATEMENT OF HON. CLARENCE CANNON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. Cannon. It is a great pleasure and privilege to be before this committee on any occasion and it is a special privilege to be before this committee on the bills you have before you today.

The question involves, Mr. Chairman, the financial integrity of the Government. It involves national solvency, and therefore involves both national defense and national prosperity.

As a matter of fact, in these critical times, it involves national existence, national survival. We are today in one of the most acute situations in which a nation can find itself, economically and financially.

The budget submitted to us in January is the largest budget ever submitted to the United States Congress in time of peace. Our expenditures and our revenues for this year are the largest in peacetime in the history of the country, and the appropriations which Congress so far has made—and we have now disposed of most of the appropriations bills, at least sufficient to project ahead definite conclusions about the totals which will face us at the end of the session—these expenditures by the Congress are the largest in the peacetime history of the United States.

The budget submitted to us in January, Mr. Chairman, projected an expenditure for the year 1957 of $6.1, an increase of $6,100 million over the current year, involving a total of $65,900 million, which is, as I have said, the record in the peacetime history of the country.

Now, to complicate the situation, we owe the most stupendous debt ever carried in peacetime in the history of the country, approximately $277 billion, and the Congress must before the end of this session again raise the statutory ceiling on the national debt.

We have repeatedly had to raise the statutory ceiling, $275 billion, and each time we have raised it we have been told that the increase was temporary, that very shortly we expected to go back to the old $275 billion ceiling, and each time we have been disappointed in that expectation. And now one more time in this session we must again raise the statutory ceiling on the national debt.

This situation carried with it disastrous consequences. It has resulted in an unprecedented inflation. In 1864, when the Civil War was nearing its close, but when the issue was not yet definitely determined, the value of the United States paper currency fell to the lowest point since the establishment of the Republic. The value of paper currency in gold went to the lowest point while specie payment was discontinued.

But even at that low point, the currency of the United States—the greenback—in 1864 was greater in buying power than a dollar is today. It is a situation attended by serious consequences.

For example, all these totals that are being published today illustrating the high returns on stocks and bonds, the highest wages enjoyed by labor must all be cut in two. We are not as great and important and prosperous as we seem to be, because the dollar today is only worth about 50 cents.

Mr. HOFFMAN. How much?

Mr. CANNON. About 50 cents.

It has fluctuated from 49 to 52 cents on the dollar.

In 1937 $1 would purchase between 101 and 102 cents worth of commodities. Today it will purchase in the fluctuating markets of today, somewhere between 49 and 52 cents on the dollar.

By way of further example, men who sit around the table of our committees here have perhaps long ago made what they considered a final arrangement of their life insurance and a final settlement of their estates. Usually insurance is handled in multiples of $10,000. Just to illustrate to them what the effect of this tremendous inflation has been, that $10,000 which is a unit is today only worth $5,000. The men

who, say, in 1937 had $10,000 worth of life insurance, have lost half the money they invested and have irrevocably in some cases complicated the arrangement which they expected to govern their estate after their death.

If a man bought $10,000 worth of insurance in 1937, he only has $5,000 worth today. The man who retired on what at that time was ample competence today has only half as much as he thought he had at the time in 1937 or thereabouts. The result is that many people who retired at that time find themselves cramped beyond recourse because they, instead of having what was competent have only half a competence now.

We have another instance. Most of the colleges of the country had an endowment fund which in 1937 was ample to sustain their institutions. They are all today in desperate straits because their endowment funds which in 1937 brought in enough returns on their investments to support the institutions are now inadequate, and all over the United States, our endowed colleges, our endowed hospitals, our endowed orphanages, and other like institutions, are engaged in a desperate struggle to make up what they have lost in this depreciation.

This depreciation is solely the result of spending money we didn't have. We have gone along spending money we didn't have, and thereby adding to the national debt.

Before the war such spending was justified when we were operating with a pistol at our heads. We had no choice but to spend and spend and spend with our eyes shut to prevent foreign enemies from taking over.

Today it is different. We are now in a time of peace, and we should have begun long ago to reduce the national debt.

Off the record just a minute.

(Discussion off the record.)

Mr. CANNON. Now, Mr. Chairman, the result of this situation which I have very briefly touched upon here, and very inadequately outlined, the result is that there is a realization all over the country by thinking people that we must revise our budgeting system, revise our appropriation processes to bring about a reduction of unnecessary expenditures, and as nearly as possible get back on a solvent basis.

In 1937, when the Committee on Appropriations considered a proposal for expenditure, they asked if it was an advantageous expenditure. Would it result in accrued advantage to the country and the people.

At that time we didn't have this tremendous national debt, a debt which today costs us $7 billion annually in interest and maintenance. Why, Mr. Chairman, back under the speakership of the distinguished Speaker from Maine, Speaker Reed, Congress for the first time spent $1 billion in a session. The editorial comments of the newspapers of the country were vitriolic. They said Congress had gone wild spending $1 billion a year.

What would they have thought if they had known that today we would be spending $7 billion a year merely to pay the interest on the national debt? It is an alarming situation, and the alarming feature of it is that nobody is alarmed. Nothing is said on the floor here today. Nothing is said about it in the newspapers. It is taken for granted.

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About the only thing we do about it on the floor is vote more money.

At the time, as I have said, when we had a reasonable national debt, when we were solvent, the approach was whether money could be spent advantageously if appropriated. Today, due to the desperate nature of our situation, the question should be, Can we get along without this proposed expenditure? If we can get along without it, we ought not to spend the money.

These bills before you today are intended to remedy this situation. They are intended to get the budget before us in such a way and so clearly that we will immediately resolve the necessity for the appropriation is in the right direction. As I understand it, these 2 bills which you mentioned in your letter when you very kindly and very graciously offered to hear me on this subject—these 2 bills have as their indirect objective the putting into effect of the recommendations of the Hoover Commission.

They have attracted the attention of the country and have been glamourized by a very remarkable statement which has been printed in every paper in the United States.

That was that if Congress would merely adopt these recommendations of the Hoover Commission, we would save annually $4 billion. That statement has been repeated and repeated and repeated.

My mail and Mr. Taber's mail have been full of letters asking "Why don't you do this simple thing?" "Why don't you just go ahead and adopt the recommendations of the Hoover Commission and save $4 billion every year?"

It is disconcerting. Everybody believes that by merely adopting the recommendations of the Hoover Commission we can save this enormous amount and thereby contribute to the reduction of the national debt in the amount of $4 billion annually. But when you get down to the basis that supports that statement, you discover it is unsupported by any facts whatever. It has absolutely no basis.

Only yesterday I asked the Director of the Budget when he appeared before our committee, "What is the basis on which they expect to save annually $4 billion by adoption of the Hoover recommendations?"

He had no substantiating facts. He said he had understood that adoption of the Hoover recommendation would save several million dollars.

I said, "Why, Mr. Director, the proposition here is not saving several million. It is saving $4 billion annually."

That same assurance has been repeated in practically every metropolitan newspaper in the United States, and reiterated on the floor of the House, and the Director of the Budget yesterday conceded that while they might hope and conjecture on a saving of vast sums of money, he didn't think that even on that basis they could save anything like $4 billion.

He said he thought they could save possibly a few million dollars by adopting the Hoover formula, and was unable to substantiate any basis on which the committee might save even a few million dollars.

So we start in here with a complete misunderstanding of the situation on the part of the press of the country.

When you begin to analyze these bills, you find first that the principal device depended on is the accrued expenditures basis.

That necessarily involves contract authorization, and of course that involves a tremendous amount of unexpended balances carried by the executive departments.

The proposal is all the more problematical when we go back to President Eisenhower's last budget message.

In his last budget message, he deplored the accumulation of excessive unexpended balances, and yet the Hoover proposals and these bills will preserve and increase the unexpended balances. That is what this proposition, the main feature of this bill, involves.

Mr. Chairman, let me take time to explain what this contract authority means.

In the first place, it is an unfortunate feature, because it discourages the comprehensive study that should be given to a proposition—any proposition to appropriate money.

These bills recommend a contract under which the agency shall go ahead and contract the expenditure. If you want to take it up in detail at that time, they say this is merely an authorization. We are not spending the money. This is merely a contract authorization and so, giving it halfhearted scrutiny, we pass it on.

But in the next year or the next 2 years, or the next 5 years, or the next 16 years, as in case of our road appropriations, for example, eventually it comes back to us in the form of a bill for material and services rendered. The agency has gone out and under contract authority so freely bestowed has contracted. That is what we authorized it to do. It has contracted and we have no alternative but to pay it. We owe the money and we have to pay it.

So at both ends of the proposition, Mr. Chairman, we are at a disadvantage. In the first place we are denied, or at least not encouraged, to make a study because it is merely a contractual authority.

When the time comes to pay the bill and they lay the contract on the table, we have no choice but to write a check. I can't think of anything that contributes more directly to irresponsible expenditure and unnecessary expenditure than such contract authority. And that is the heart of this bill.

So I would say, Mr. Chairman, that I do not believe that the Committee on Appropriations—and I have heard Mr. Taber express himself so frequently on this subject that I rather think he joins me in that expression—that we cannot after long experience, approve this sort of budget reform.

I may add, Mr. Chairman that if such processing is desired this legislation is unnecessary, because we already have statutory authorization to do everything these bills provide.

In the Budget Act of 1921 and in the Budgeting and Processing Act of 1950, we already have authority to do everything that is here proposed.

Mr. Chairman, I must be in the other committee. I deeply appreciate this opportunity to appear before you. Mr. Taber here is qualified to discuss this matter as authoritatively as anybody could discuss it so I yield to him at this time with deep appreciation of your courtesy in hearing me.

Mr. HOFFMAN. Just a minute, before the chairman goes. He had 30 minutes. He used 20 minutes of that time in discussing the situation, outlining it and describing it, and we are all familiar with it. That is, our present lack of financial solvency.

Mr. CANNON. Perfectly familiar.

Mr. HOFFMAN. Now, wait a minute. The gentleman is doing as he always does. He comes in and hits and runs away. You refuse to submit to a cross-examination.

Mr. CANNON. I appreciate the chairman's giving me this time. I have not discussed any personalities.

Mr. HOFFMAN. What the gentleman does is make a statement.

Then he refuses to permit us to cross-examine him to ascertain the weight to be given to his situation.

Mr. CANNON. What would the gentleman like to ask?

Mr. HOFFMAN. If you want to sit down, I will ask you a couple of things.

(Discussion off the record.)

Mr. HOFFMAN. Assuming that there have been too many expenditures already, how many did you as chairman of the Appropriations Committee oppose?

Mr. CANNON. I opposed all expenditures that I thought we could get along without. I am sorry to say the committee and the House did not always follow me.

The gentleman from New York, Mr. Taber, joined me in an opposition to many expenditures that remained in the bills. Both the committee and the House refused to accept Mr. Taber's and my recommendations a number of times.

Mr. HOFFMAN. How many of the appropriations recommendations made by the House did you vote against?

Mr. CANNON. I was in this position——

Mr. HOFFMAN. I know your position already. I know what you did and what you say.

Mr. CANNON. Under the rules of the House, a chairman of the committee must support a bill on the floor or yield leadership of the bill to somebody else.

Although the committee refused to accept my recommendation, and refused to accept Mr. Taber's recommendation, neither one of us had authority——

Mr. HOFFMAN. Had authority?

Mr. CANNON. We weren't authorized under the rules to go on the floor and take any other position except to support it.

Mr. HOFFMAN. You could have yielded your leadership on the floor; on the bill before the House voted the way your conscience dictated in favor of principle instead of expediency.

Mr. CANNON. That statement comes under the characterization of interesting if true.

Mr. HOFFMAN. It's true enough.

I would like to have the gentleman come back. I don't understand this idea of coming in, making statements——

Chairman DAWSON. The matter was something he spoke of off the record.

Mr. HOFFMAN. I'll answer him on the floor.

Mr. BROWN. Mr. Chairman, I also find myself in a position where I must leave for another committee meeting. The Committee on Rules has before it at this moment a very important bill on Federal aid to public school construction.

Before I leave, I would like to call attention to the fact that, as a member of the second Hoover Commission which made the report upon

which this legislation is founded, while I approved the report generally, I made a separate statement as to one recommendation. I have said in that statement, and I quote:

> I cannot fully accept recommendation No. 7 to convert the congressional appropriations structure to an estimated annual accrued expenditures basis. This is a radical departure from a longstanding fiscal policy which would require long-range changes in our appropriations process. I am, therefore, unwilling to give it a blanket endorsement without further study by appropriate committees of the Congress.

Recommendation No. 7 reads as follows:

> That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

I was very hopeful when I came here this morning that we could have the benefit of the long experience and wide knowledge of both the chairman of the House Committee on Appropriations Mr. Cannon, and the minority chairman, Mr. Taber, as to exactly what their opinions might be on this particular recommendation, as well as the rest of the bill. I, of course, got no information from the statement made by the gentleman from Missouri, except as to his general comments and views; which, of course, we had no opportunity to cross-examine.

As I must leave, I would like to express the hope, and I am sure he will, that Mr. Taber will devote some attention to just what affect this recommendation and this bill will have on the method of making appropriations, and whether or not such will be practical, in his broad experience; or, if not, what suggestions he might make that could be substituted for recommendation No. 7 which would be helpful in the endeavor to get greater economy and efficiency in the conduct of the public business.

Not being able to be present, of course, I shall read with great interest his statement. But I wanted to make my position clear as far as the general recommendations of the bill are concerned; and also why I wouldn't be able to stay for the balance of the hearing.

I hope Mr. Taber understands my position.

Mr. LIPSCOMB. I would like to state that the recommendation is included in H. R. 11526. In H. R. 9402, recommendation No. 7 has been deleted.

Mr. BROWN. That was my understanding.

Mr. LIPSCOMB. When Mr. Cannon spoke with respect to the bills, he spoke as if they were both the same, particularly as to contracting authority.

That is not the case in these two bills. That is one of the instances in which they are substantially different, although H. R. 9402 has features in it that the other does not have, but in connection with administrative matters. I just wanted to point that out to the committee.

Chairman DAWSON. Mr. Taber.

STATEMENT OF HON. JOHN TABER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. TABER. I recognize the delicate financial situation that this country is in. I am glad that the budget shows prospects of being balanced in the fiscal year we are now in, with $2 billion. I would

hope that that same situation might apply next year. If it does, it will be a great contribution toward putting the Government of the United States on a solvent basis.

I have been over these two bills quite carefully. Neither of them touches the one thing that to my mind would give us an opportunity to save some money. I am going into the details after a little, but the great curse of our budget and accounting system is the so-called performance budget, which was slipped into the unification bill relating to the armed services, during its passage, without anybody knowing that it was there.

Mr. HOFFMAN. You mean in 1947 or 1949?

Mr. TABER. 1948, I think.

That permits the armed services and, insofar as it has been adopted in other places, to come before the Appropriations Committee with a lump-sum request for multitudinous activities and to present the so-called justification without being able to give us in the slightest degree the basis for the appropriation. That has been so when I have been chairman of the committee. It has been so when Mr. Cannon has been chairman of the committee. It is absolutely impossible the way they keep their accounts and the way they come up and present their budget requests, to find out the basis for their requests.

Now, that has resulted in large unexpended balances. It has also resulted in its being absolutely impossible for us to get at, except through investigators that we send out from time to time, to tell what ought to be done and what our responsibilities are. That is the one thing that would save enormous sums of money if it were eliminated and if they were obliged to go back and submit their figures on a proper basis so that the people up here on the Hill could get into it deep enough to understand it. I have asked them time after time for the details and they have never been able to get them. Now, so much for a remedy, the chance to really save some money. That is what that particular approach would do.

Now, I am going into these bills a little bit and I am going to call attention to a few things that I have struck going over them that I would think if they were going to be considered at all, should go out. Some of them I would like to endorse.

On page 3 of the bill, H. R. 9402, line 18, I certainly would strike out "not more than two persons" because I do not see how two persons could go in.

Mr. JONAS. Will the gentleman yield?

Mr. TABER. Yes.

Mr. JONAS. Mr. McNeil, from the Defense Department, made the some recommendation, and I think it was pretty generally understood by the committee that that certainly, from line 18 to the end of that section, will go out. Am I safe in saying that, Mr. Chairman?

Chairman DAWSON. That seemed to be the idea.

Mr. JONAS. That seemed to be pretty generally agreed.

Mr. TABER. They couldn't possibly do a job on the Military Establishment with just two persons. That is beyond any question.

Now, this cost basis and the suggestion that we get back to contract authorizations, is something tha experience has shown costs a lot of money. It would increase the cost of Government tremendously. These contract authorizations, instead of being something to save

money, are something to release from the control of Congress the power to appropriate it. That is all it amounts to. When you get down to appropriating money on the basis of what they might spend, that means that the Congress has then declared that it wants to get back to the contract-authorization business. It doesn't say so in the bills, but that is what it means. We have found, by hard experience, that the worst waste that comes and the things that are absolutely impossible of correction come from these contract authorizations. We have contract authorizations hanging around that we haven't been able to eliminate galore. Every little while we find something where we could eliminate them.

Mr. JONAS. Mr. Taber, would you turn to page 4 and read the last sentence in that section and give us your ideas about whether these people assigned from the Bureau of the Budget should stay in the Department more than 2 years? There was a little argument in the committee about that. It is a sort of two-edged sword.

Mr. TABER. I have found that it is desirable to move people around on committees a good many times, because people who stay long enough on an individual job tend to become protagonists of that setup. You go into the Defense Department. I do not think that the budget should be deprived of the knowledge that some of these people over a long period of years have been able to acquire. Now, it might be that a little new blood is required in the budget representatives, but I would hardly say that no one should be kept in there for over 2 years. I think that would be a mistake.

Mr. LIPSCOMB. Mr. Chairman, I am sure Mr. Taber knows this, but I, at least, was amazed to find out that, I believe, 35 people from the Bureau of the Budget are working in the Department of Defense, which handles almost 60 percent of our total budget money. Only 35 people working over there.

Mr. TABER. Well, you see, the bill the way it was would have cut that number down, I would expect. I don't know how it would be interpreted, but I think there are a good many more than 35 people involved in the work. It may be that only 35 are over there, but that doesn't mean that that is all there are working on the job at any time, because I know that—I have had considerable contact with the budget, and that has gone on regardless of whether or not I was in the majority or the minority, and whether or not the administration was of my party or of the other party.

I have gone over, and we have gone over, things with the budget officer and had considerable occasion to cover that situation. Frankly, we have 7 or 8 of our top clerks in the Appropriations Committee working on the Military Establishment all the time without very often going to the Pentagon. We have on occasion sent in groups as large as 35 or 40 to the Military Establishment, groups of investigators, and they would be out of the top drawer of accountants and business analysts, and that sort of thing. Some of them, a very large number of them, would come from the General Accounting Office. A large number would come out of the certified public accountants' outfits, like Price Waterhouse, like Anderson & Co., like—I could name a dozen of them. That has helped us to get a picture of it. The budget has a very considerable number of quite able accountants who operate over there.

The accounts of the armed services are kept in such a way that it is almost impossible, even for those people, to get what they feel they ought to have. Now, the only way I can see is to get rid of that performance budget to give us a picture of what we need.

Mr. HOFFMAN. May I ask about that when you get to it?

Mr. TABER. Yes.

Mr. HOFFMAN. All right. Something was said here to the effect that the National Security Act of 1947 brought that into existence. I have before me the 1947 act which is chapter 342 of the Statutes at Large, statute 61, page 494. I don't find anything in there. But here is where it came in, in 1949 in the National Security Act Amendments of 1949, statute 63, page 586, section 403. My recollection is that section 403 of the 1949 amendments—that amendment came out of the armed services.

Mr. TABER. It did.

Mr. HOFFMAN. Not from this committee, and then it is entitled "Performance budget." That is what you were talking about?

Mr. TABER. That is exactly right. I was wrong on the year.

Mr. HOFFMAN. I want to put that, section 403 of the 1949 amendments, in the record, and I want to quote from it:

PERFORMANCE BUDGET

SEC. 403. (a) The budget estimates of the Department of Defense shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs. So far as practicable, the budget estimates and authorized programs of the military departments shall be set forth in readily comparable form and shall follow a uniform pattern.

(b) In order to expedite the conversion from present budget and accounting methods to the cost-of-performance method prescribed in this title, the Secretary of each military department, with the approval of the President and the Secretary of Defense, is authorized and directed, until the end of the second year following the date of enactment of this act, to make such transfers and adjustments within the military department of which he is the head between appropriations available for obligation by such department in such manner as he deems necessary to cause the obligation and administration of funds and the reports of expenditures to reflect the cost of performance of such programs and activities. Reports of transfers and adjustments made pursuant to the authority of this subsection shall be made currently by the Secretary of Defense to the President and the Congress.

Mr. TABER. I knew it was there but I wasn't properly advised on the year.

Mr. HOFFMAN. I wasn't sure that it was slipped over on us.

Then, we have a section here in the Budget and Accounting Procedures Act of 1950 where it was made to apply to the other departments, just as you said. That was done pursuant to the recommendations of the first Hoover Commission for a performance budget and the pertinent sections are 102 (a) through (d) which amend sections 201, 203, 204, and 205 of the Budget and Accounting Act of 1921. Your idea would be to repeal that provision in your statute?

Mr. TABER. It would.

Mr. HOFFMAN. That would be in your opinion a remedy?

Mr. TABER. That would result in our being able to find out enough about these things so we could intelligently pass on them.

Mr. HOFFMAN. What they have been doing is coming in and saying, we want so many millions or whatever it was for miscellaneous purposes.

Mr. TABER. Without being able to break down the items so that you really could be able to understand what it was or check on their activities and the mistakes they made.

Mr. HOFFMAN. They wanted money to go to town, but not to tell you what they were going to buy.

As I get it here, section 204–A, which is an amendment to the other section—that is found on statute 64, page 833—"except as otherwise provided" and so on. It says here: "shall conform to requirements prescribed by the President."

If we get rid of those sections, we will be on our way where you can do something?

Mr. TABER. I would not object to the President prescribing those things or the General Accounting Office, or the budget, but I think we have got to get away from that performance budget if we are going to get anywhere and save some money

Now, this cost business and the cost basis for the budget. Frankly, we had the budget over before us yesterday afternoon, all the afternoon. They have found in some agencies where they could save some money by having a better grasp of the inventories of certain agencies. I think that is true. On the other hand, the big place where you can save some money, in my opinion, is in the armed services and that relates to—that has to be based on their inventories. Those inventories are much better than they were but I do not think that the facts come out the way they should. I think that the use of the inventories could be used by the budget and by the Appropriations Committee to analyze what is needed, so we would not be giving them things that are not required.

For instance, we do not have that picture, and I know of places in the armed services where, the way things stand, it is impossible to see what any unit in the armed services, any base actually uses, so you can't find where the responsibility lies for the failure to operate on a sound basis. Now, if we got rid of that performance budget, we would be able to get that.

Mr. LIPSCOMB. Mr. Taber, it is my thinking that a cost-based budget is exactly what we are trying to get at to correct the situation that you are talking about here.

Mr. TABER. The trouble with it is you would have to let these agencies have contract authority and they get that twice as easily as they get an appropriation. I know from long experience that that is so.

Mr. LIPSCOMB. Mr. Chairman, with permission, I would like to read into the record what the Hoover Commission said about this, and I believe, in my opinion, it concurs a great deal with what Mr. Taber is saying.

This is on page 30 of the Task Force Report on Budget and Accounting:

> * * * The Government-type budget presentation fails properly to take into account inventories and other working capital available at the beginning of the year which may be consumed in the programs of the budget year. Neither does it reflect materials which may become available during the budget year on the basis of prior year's obligations, or those resources which are estimated to be

carried over to the following year. Inventories, equipment and facilities, and other working capital items on hand and on order represent resources already available for a given program and they should be considered in establising the level of funds required to accomplish a program.

The most useful accounting data in formulating and controlling agency budgets is that which reflects the cost of goods and services to be consumed or used in carrying out our budget programs—the estimated "costs incurred." Budgets which include information concerning costs incurred are designated as cost-based budgets. * * *

In other words, if you could get the history of what went on in the prior year, it would give the Appropriations Committee a more accurate look at what they are going to appropriate. It goes back to what Mr. Cannon said, that nobody knows what they are appropriating because——

Mr. TABER. Well, I wish we had one of our committee prints here. Mr. Jonas would know what that was, because he has been through it. We have what the budget estimate is. We have what the budget estimate has been right on the page of each important appropriation for the last 30 years probably. What the appropriation has been, and then we proceed and we ask what their obligations have been down to the latest possible date that we can find.

You remember that, Mr. Jonas, you have seen that time after time. We always have that. We always have, as far as we can get it, an analysis of these expenditures, but we are prevented from getting a good analysis because of this performance budget idea and the idea that it should be a one-line job, rather than a detailed appropriation bill.

Mr. LIPSCOMB. Well, if the agencies and departments were required to submit a cost-based budget, wouldn't that, in effect, eliminate the reasoning behind the performance budget? They couldn't come up with that kind of information if they had to do this other.

Mr. TABER. They could do that just in the same way. They do it now. They give us a cost-based budget.

Mr. LIPSCOMB. In many departments they do, but not throughout the Government.

Mr. TABER. Well, they are supposed to do it on everything but you can't tell what is in the proposal because of the performance budget. That is where your tronble is rather than in this accounting system.

Mr. LIPSCOMB. That is the root of the whole thing, the accounting system.

Mr. TABER. Your accounting system, if you have a cost-based budget, and an accrual basis, you have got to have contract authorization, and that is where the rub comes.

Now, many times yon get a cost-based budget, it is not outlined. We have that on a great many things. Now, we have it in the Coast Guard, we have it partly in the Post Office Department, and we have it in a great many others. But when it comes to the contract authorization business for things that they have to let contracts for that will not have to be paid for until a later date, you get the thing out of control. That is where the trouble it.

Mr. LIPSCOMB. Under the present obligation system, they have the contract authority now.

Mr. TABER. No; the funds are appropriated every year, and have been for some time now, on the basis of actual dollar appropriations, and that is where they get their authority to make contracts where the payments do not have to be made until after the end of the fiscal year.

Now, there are what I would call some good provisions in some of these bills. I think that it would do no harm to have them put in. I would almost be in favor of one provision in 11526, actively in favor. That would be page 3, paragraph (d). It would have to be worded a little different in order to be effective but if it said at the end of each fiscal year, the excess of any appropriation or fund, unobligated, shall lapse. If it said just that, that would be a good provision, because some of these things, these funds, are available; are made available until expended. I am afraid that that is not a good practice. I think that would be a reform that could be devoutly desired.

Mr. JONAS. Mr. Taber wasn't it under that arrangement that we ran up these unexpended balances to about $80 billion a couple of years ago? That is a fantastic amount of money but that is the figure I recall. It was $80 billion or $90 billion.

Mr. TABER. It was to a considerable extent. Not entirely, because you take your procurement of aircraft. The major contracts for the procurement of aircraft run 3 to 4 years. The major contracts for the construction of a ship do likewise, and you couldn't possibly avoid having large, unexpended balances in connection with those things.

Mr. JONAS. I am just going to inquire—if I were a ship manufacturer or a plane manufacturer, unless the agency letting the contract had some continuity of control over it, it would be sort of dangerous to begin construction; wouldn't it? You would have to rely entirely——

Mr. TABER. It would.

Mr. JONAS. I could see that the contract authority would be necessary there.

Mr. TABER. I think you get a better price on things where you actually have contracts and the money to pay their requirements. Of course, the Navy does a good deal of its own constructing. Those things don't apply so much to the Navy. They do a great deal of their own work in the navy yards.

Mr. HOFFMAN. The Committee on Education and Labor has an executive session which I must attend. I should like to make one comment before leaving.

Now, the situation described by the chairman of the Appropriations Committee during the first 20 minutes of his testimony here, of course, as we all realize, is tragic, and it is also, in my judgment, ridiculous and absurd because isn't it true, that realizing that situation, the principal offender is Congress itself in appropriating these various sums? I know your record, Mr. Taber. It has been against practically every one of them for the last 20 years, at least to my knowledge. Isn't that where the fault lies, with the Congress itself?

Mr. TABER. The Congress needs to be more alert to its responsibilities and to be ready to reduce these appropriations wherever they are not needed, for legislative activities of the Government and especially, for national defense. The processes of defense are costing us too much money, not because of the things we buy that are needed, but because of the waste inherent in the way they operate, and they have always done that, and it is exceedingly difficult to educate a man who wears a uniform to the financial picture of the Government.

Mr. HOFFMAN. I know it is an easy out, and I am not intimating that that is what you are doing, it is an easy out for the Congress to lay this excessive waste—and waste is always excessive—upon the De-

fense Department . But didn't we, when we enacted the highway bill, the farm bill—now it may be necessary, it may be politically advantageous, it may have been desirable; but didn't we hike the national debt?

Mr. TABER. Yes; very decidedly.

Mr. HOFFMAN. Then doesn't it come back to the Members of Congress themselves?

Mr. TABER. Yes; it does.

Mr. HOFFMAN. Why should we yell about an item which we all know is increasing the national debt by billions every year, when we vote for other appropriations for the legislative departments?

Mr. TABER. Well, we are responsible for providing the funds for our legislation.

Mr. JONES. One thing for sure, no executive agency of the Government can spend a dime that we don't give them; isn't that right?

Mr. TABER. That is right.

Mr. HOFFMAN. Didn't we—I notice in one of the morning papers here $25 Million Sought for 3 United States Buildings"—didn't I notice that?

Mr. TABER. I guess that is there.

Mr. HOFFMAN. Yes; I guess that is there. And it isn't any Defense Department that recommended that.

Mr. TABER. We can't lay that to them; no. We can't lay that to the Defense Department.

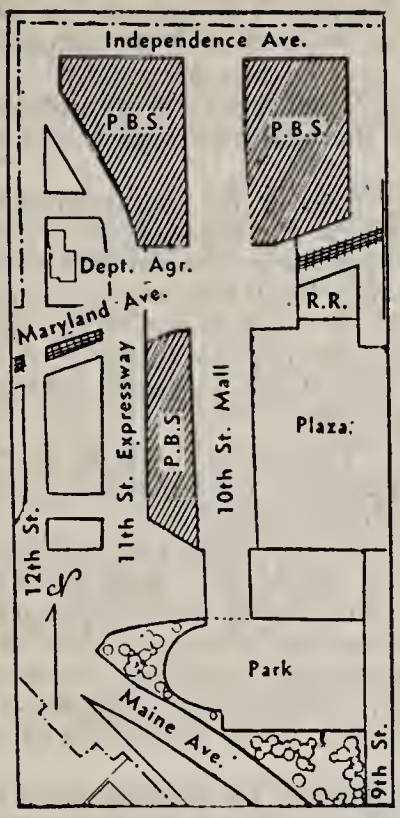
Mr. HOFFMAN. And on this one: "$4.5 Billion Aid Voted by Senate Unit." Just to get an idea:

> As the bill now stands, the total new authorizations would amount to $4,270 million as against $3,567 million voted by the House and $4,672 million asked by Eisenhower. The overall $4,502 million takes into account previous authorizations in the President's requested $4,900 million.

I guess I had better not read it.

Here is another item from the same issue, which shows that we are appropriating money for the legislative branch which I think is unnecessary. Note this:

[Washington Post and Times Herald, June 19, 1956]



Washington Post and Times Herald staff map

Shaded areas show the sites of the three office buildings planned along the proposed 10th Street Mall

TWENTY-FIVE MILLION DOLLARS SOUGHT FOR 3 UNITED STATES BUILDINGS

GSA TO ASK FUNDS FOR STRUCTURES OFF SOUTH MALL

(By Robert C. Albrook, Staff Reporter)

The General Services Administration will ask the House and Senate Public Works Committees today to approve construction under lease-purchse contracts of three 6-story Federal office buildings in southwest Washington at a cost of $25,250,000.

The structures would flank the projected South Mall along 10th Street, a key feature of the Zeckendorf plan for redevelopment of 441 acres of the blighted southwest area.

GSA a year ago asked the committees to approve 2 buildings flanking the South Mall, at a cost of $20,200,000. The new proposal will take the place of this plan. The 2 buildings were to have contained 815,000 square feet of gross floor area. The 3 structures would total 972,250 gross square feet.

The Zeckendorf plan, developed by the New York firm of Webb & Knapp, headed by William Zeckendorf, has been approved by the National Capital Planning Commission and is awaiting action by the District Commissioners and the Federal Urban Renewal Administration.

Two of the proposed buildings would flank 10th Street between Independence Avenue and the railroad tracks. The third would be placed on the west side of 10th Street between the tracks and the projected Southwest Freeway along the line of F Street, across the new mall from the entrance to the proposed L'Enfant Plaza.

Chairman DAWSON. Will you proceed?

Mr. TABER. Well, frankly, I do not see how you can go back to this contract authorization business with the situation that we are in, and not have it cost the Government more money.

Chairman DAWSON. Then it is your opinion that if either one of the bills were passed by the Congress that it will cost the Government more money?

Mr. TABER. If they provide for the appropriations being made on an accrual basis. That is, for instance, if we have contract authority for $50 million and appropriations for $25 million for some department, the $25 million may be all that would accrue during the year, but the $50 million would be easier to get, if you go back to that way of doing business, would not require funds until the next year, and it would be harder to keep things in hand and harder for us to do the things that we ought to do.

Chairman DAWSON. Then you do not agree with the recommendation that if their suggestions were put into legislation that it would save our country $4 billion a year?

Mr. TABER. Some parts of it, like the cost basis, insofar as it is applicable, would save or would be a good thing to have. But if you adopt the provision for placing your appropriations on an accrual basis, that means automatically that we have to provide contract authorizations for anything that would not accrue during the year.

Chairman DAWSON. Come in, Mr. Rogers—Congressman Rogers, and have a seat over here. He is the author of one of the bills, H. R. 11526.

Mr. TABER. If we provide for putting your appropriations on an accrual basis, leaving the funds for the $50 million that is in contract authorization to be paid for and appropriated for out of subsequent years' appropriations, I think that would be a means of wasting money rather than anything else, and taking more out of the control of Congress, than it would save.

Chairman DAWSON. The Bureau of the Budget was up and it recommended these bills in some respects.

Mr. TABER. Well I would be willing to go along with some of the provisions in the bills, if you would do away with the requirement that the budget be submitted upon an accrual basis. I would not see very much that I would object to in connection with the bills. But if you leave that in, I would be afraid of it.

Chairman DAWSON. In the light of your past experience you would be afraid of it?

Mr. TABER. I would.

Chairman DAWSON. Now you have spoken of the performance budget being the evil that we face in the present situation; do you, or would you support legislation to change that?

Mr. TABER. I would.

Chairman DAWSON. Mr. Lipscomb?

Mr. LIPSCOMB. Mr. Chairman. If we did away with the budget, would we have to write into legislation some other form in which the administration of the executive branch would have to submit budgets?

Mr. TABER. No, if you had the provisions that you have got in these bills here.

Mr. LIPSCOMB. Section 216.

Mr. TABER. I would not object. You mean the one on page 2?

Mr. LIPSCOMB. Page 2 of H. R. 9402; and page——

Mr. TABER. Page 2 of H. R. 9402, no, I would not object to it. I would think that would be desirable.

Mr. LIPSCOMB. In other words that would make the agency bring up more complete data to the Appropriations Committee, so they could have more information?

Mr. TABER. Well, I don't know. We get, well for instance on the military we get that information monthly. Now on the foreign relief, we do not get it monthly but we ask for it pretty near monthly, and get it specifically.

Now one of the hardest things to check in is the agricultural picture with that Commodity Credit setup, which is entirely out of the control of Congress, except as they get to the end of their borrowing power.

The other setups, it wouldn't do any harm to let the outfits make a quarterly report, any of them. I question the requirement of having some of them, like the Smithsonian Institute and—oh, there are about 30 or 40 of those agencies that are about that size, where they have very small comparative funds. I question the desirability of getting any more out of them than we presently get.

You remember, Mr. Jonas, the very large number of agencies in the independent offices bill?

Mr. JONAS. Yes.

Mr. TABER. There must be 30 or 40 agencies that have, oh, less than three or four hundred thousand dollars. You can't ask too much of detail on them.

Mr. LIPSCOMB. Wouldn't it be feasible if a section like this, if it was written in to limit it to a specific amount of funds, for instance, you mentioned $400,000, or for agencies of a certain size?

Mr. TABER. I would think so. I think it would be. I think that would be a good provision.

Mr. LIPSCOMB. Many of these agencies that you are talking about already do their budgeting on the system that is indicated in the bill.

Mr. TABER. There are a lot of these things that would do no harm and they would do some good.

If you got away from the requirement that the President submit the budget on an accrual basis, that would be the thing that I would think would be the most important, that is the real serious thing in the bills.

I wouldn't say that that limitation on page 3 of your bill wasn't bad, because I do think it is, that one that we talked about earlier.

Mr. JONAS. Would it bother you if I interrupted here?

Mr. TABER. Not a bit. I am through, except for questions.

Mr. JONAS. I have been following your argument on the use of accrual. But please turn to page 4 of the Lipscomb bill 9402.

Now line 17, that is section (c), it says:

> As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show currently, completely, and clearly the resources, liabilities, and costs of operations of such agency.

Maybe we could have some compromise of the two views and leave out the word "accrual." You don't object to that?

Mr. TABER. I would not object to that.

we would have a minimum of reserves. Yet down in one wing of the building there were 5 officers in charge of 5 programs for 5 different kinds of vehicles. All of the five thought that they ought to have the same percentage, approaching 100 percent reserves, whereas Lovett felt that 10 percent of a theoretical reserve of commercial trucks was all right, but when we got the two and one-half, rather easily built trucks, that 25 or 30 percent was all right, and on the very difficult ones, 50 percent.

Yet the budget came in initially on all of those for almost a maximum mobilization reserve, not taking that into account.

Now, that would cause a big dollar reduction. But did it affect the real security of the country?

Senator SYMINGTON. In other words, what we have is certain goals, and the military say, "This is what we need to reach those goals," for example, a 137-wing program. And then you analyzed the budget and say, "Based upon what you have given us and our analysis of certain things"—and trucks is an excellent illustration—engine life might be another, and lead time might be a third, if we are just talking about appropriations and not expenditures, but then you say, "We think you can do it for less than that." Is that right?

Mr. MCNEILL. That is right.

Senator SYMINGTON. And, of course, that decision of the Secretary of Defense is final. But let me ask you this question——

Mr. MCNEIL. Let me add just one thing. You mentioned engines, and that is a difficult one. A couple of years ago, some engine requirements were shown in the budget for 225 percent spares as compared with installed equipment.

Senator SYMINGTON. Yes, I recall that.

Mr. MCNEIL. But if you examined currently what was going on at Sacramento and Norfolk and the naval installations, you would find that in the meantime the life of that engine had been extended to the point when probably 70 to 75 percent spare engine was about right. At that time, we were not sure that that would be true, and the budget went in for 110 percent spares. Before the money was spent, actually, it was brought down to 75. But we had 6 months in order to prove it.

Senator SYMINGTON. Yes. I think it is a very constructive and logical saving. That is the reason I mentioned engines.

Mr. MCNEIL. Yes; those kinds of things.

Now, we have another one right at the moment where we submitted a budget in December in good faith, calling for a certain number of very complicated computers. I think there is a requirement there. We now find that we are not going to be able to get them.

Senator SYMINGTON. So that automatically reduces your necessity for appropriation, and in no way affects your expenditures; right?

Mr. MCNEILL. Well, our expenditures will be down a little bit because we are not going to get them as fast. They are running into some difficulty——

Senator SYMINGTON. Oh. I thought you said you did not need them.

Mr. MCNEILL. No. I said I think the need is there.

Senator SYMINGTON. Oh, I understand.

Mr. MCNEILL. But they are not going to be able to make them.

Senator SYMINGTON. Now, let me ask you this question. What factors were used in setting up these targets or limitations by the Office of the Department of Defense prior to receiving the judgment of the respective service Secretaries and the members of the Joint Chiefs of Staff? What factors were used?

Mr. MCNEILL. I do not believe I quite understand your question, sir. Would you mind——

Senator SYMINGTON. You mentioned in your previous testimony, "targets," and this question the staff has asked me to ask. "What factors were used in setting up these targets or limitations by the Department of Defense prior to receiving the judgment of the respective service Secretaries and the members of the Joint Chiefs?"

Mr. MCNEIL. Well, it didn't work quite that way, sir.

Senator SYMINGTON. Now, you describe that for us, will you?

Mr. MCNEIL. First—we are getting considerably away from this bill, but it is a very pertinent subject——

Senator SYMINGTON. I asked you that——

Mr. MCNEIL. Well, in the first place, the Chiefs are the ones who recommend the basic force structure.

Senator SYMINGTON. Let me just interrupt you there. I do not think we are getting away from the bill, because we started talking about the position of the Comptroller in the question of policy.

Now, with the premise that the Comptroller is a staff man and not an operating man, I am in the most complete agreement that he should be in policy, because through him is the best chance for good management through good cost control, you see.

Mr. MCNEIL. Except that the final decision should not be his.

Senator SYMINGTON. I agree with that, of course. As I say, that is the premise of my statement, that he is a staff man. No staff man makes a final decision.

Mr. MCNEIL. Yes.

Senator SYMINGTON. But on the other hand, if you say that the Comptroller should be a man who goes beyond simple accounting procedure, I completely agree. You would never run a business unless you interpreted the figures to have better management. You would go broke in a relatively short time.

On the other hand, if that is true, then I think we have a right to say as part of the consideration of the bill as to what is the nature of the Comptroller's functions when he functions in a policy field beyond the accounting field. Is that not a fair observation?

Mr. MCNEIL. Yes, that is.

Senator SYMINGTON. All right.

Mr. MCNEIL. Of course, the question on the whole process of developing a plan goes a bit beyond the Comptroller function.

Senator SYMINGTON. Yes, except that the Comptroller is involved through the delegation of policy—and you, I think, said that it had to be done through the money when the decision was made. Then I would like to know what is the nature of the——

Mr. MCNEIL. I think I said "frequently." If not, I would like to amend it.

Senator SYMINGTON. Frequently. Well, let us get into electronics and take one of those "frequencies."

Mr. MCNEIL. Well, going back to the other, first, in the case of the basic force structure, which is the key, the Chiefs made a recommendation in 1953 for what was popularly called the New Look. This

have to come each year and show us how much you plan to spend each year and your plans and how you are progressing"—in other words, what performance you are giving us each year, so that where we find that planes yet have not come out the year we expect them to, rather than waiting until some trouble comes up later, a year or two later, at the end of the obligation authority when they may come back and say "we need more money because we made a mistake," we would know the first year on an accrued expenditure basis.

Mr. TABER. We generally get that as we go through and consider the appropriations for it now, and those things would tend to—the only trouble is this: The trouble with giving them the contract authority or the obligating authority without the money is that it is so much easier for them to get it.

Now that is the trouble with it. Now people will vote for a contract authority much easier.

Mr. ROGERS. I see. Well, your feeling then, as I understand it, is that to enter into just a contract would be easier probably for the Congress to go along with rather than actually appropriating the full amount of money.

Mr. TABER. That is it.

Mr. ROGERS. But you think the reporting as done on a yearly basis would be a good thing?

Mr. TABER. I think that would be good, but I would hate to have the budget submitted on an accrual basis because if that was done, if we put in the law that the budget should be submitted that way, it would be hard work for us to do any other way than go along with it.

That is, if the Congress passes the bill providing that the budget should be submitted on an accrual basis, it is going to be impossible for the Appropriations Committee to do any other way, even though they would not be bound by that.

Mr. ROGERS. I see.

Thank you very much, Mr. Chairman.

Chairman DAWSON. Mr. Jonas?

Mr. JONAS. No questions.

Chairman DAWSON. Mr. Lipscomb?

Mr. LIPSCOMB. No questions.

Chairman DAWSON. We are very grateful to Mr. Taber for giving us so much of his time. I am sure we have been greatly benefited by the testimony today.

Mr. TABER. Thank you very much.

Chairman DAWSON. Very well. This committee will stand adjourned until further notice.

(Whereupon, at 1:40 a. m., an adjournment was taken until further notice.)

APPENDIX

BUDGET AND ACCOUNTING

COMMENTS OF EXECUTIVE AGENCIES ON THE RECOMMENDATIONS OF THE HOOVER COMMISSION ON ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT ON BUDGETING AND ACCOUNTING AND H. R. 9402, H. R. 7209, H. R. 7338, AND H. R. 8236

EXECUTIVE AND LEGISLATIVE REORGANIZATION SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

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BUDGET AND ACCOUNTING

Comments of executive agencies on the—

Recommendations of the Hoover Commission on Organization of the Executive Branch of the Government.

H. R. 9402—To improve governmental budgeting and accounting methods and procedures, and for other purposes.

H. R. 7209—To provide for improving accounting methods in the executive branch of the Government, and for other purposes.

H. R. 7338—To provide for improving accounting methods in the executive branch of the Government, and for other purposes.

H. R. 8236—To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof.

RECOMMENDATIONS ON BUDGET AND ACCOUNTING OF THE HOOVER COMMISSION ON ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT

RECOMMENDATIONS RELATING TO THE BUREAU OF THE BUDGET (PART II COMMISSION REPORT)

Recommendation No. 1

(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(*b*) That in order to do this, among other things, it should place in important agencies one or more well qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

Recommendation No. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Recommendation No. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

RECOMMENDATIONS RELATING TO THE PERFORMANCE (OR PROGRAM) BUDGET (PART III COMMISSION REPORT)

Recommendation No. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Recommendation No. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Recommendation No. 6

That executive agency budgets be formulated and administered on a cost basis.

RECOMMENDATIONS RELATING TO RESTORATION OF CONGRESSIONAL CONTROL OF THE PURSE (PART IV COMMISSION REPORT)

Recommendation No. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely charges for the cost of goods and services estimated to be received.

Recommendation No. 8

That legislation permitting the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordinarily be enacted for a limited term in order to require periodic congressional review of their usefulness.

Recommendation No. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

RECOMMENDATIONS RELATING TO ORGANIZATION FOR ACCOUNTING IN THE EXECUTIVE BRANCH (PART V, COMMISSION REPORT)

Recommendation No. 10

That there be established under the Director of the Bureau of the Budget a new staff office of accounting headed by an assistant director for accounting, with powers and duties as follows:

(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(*c*) To set reasonable but definite time schedules for performance and to watch progress.

(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

Recommendation No. 11

That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

(*c*) To develop and be responsible for reliable and informative financial reports for: (1) Internal management purposes; and (2) for issue to the Congress and other executive departments or agencies.

(*d*) To interpret and advise upon significant aspects of the financial reports.

(*e*) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

Recommendation No. 12

That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the assistant director for accounting in the Bureau of the Budget.

RECOMMENDATIONS RELATING TO ACCOUNTING PROCEDURES IN EXECUTIVE AGENCIES (PART VI COMMISSION REPORT)

Recommendation No. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Recommendation No. 14

That Government accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities, and the cost of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

Recommendation No. 15

That after appropriate acrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

Recommendation No. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Recommendation No. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Recommendation No. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies.

Recommendation No. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

RECOMMENDATIONS RELATING TO CENTRAL ACCOUNTING AND REPORTING (PART VII COMMISSION REPORT)

Recommendation No. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate (a) duplicate accounts within the Treasury Department, and (b) duplicate accounting as between the Treasury Department and the various departments and agencies.

Recommendation No. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they may meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Recommendation No. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

RECOMMENDATIONS RELATING TO THE DEPARTMENT OF DEFENSE (PART VIII COMMISSION REPORT)

Recommendation No. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

Recommendation No. 24

That the comptrollers in the military departments be responsible only to the Secretary of their respective services, and that concurrent responsibility to a chief of staff or equivalent be discontinued.

RECOMMENDATIONS RELATING TO AUDITING AND THE GENERAL ACCOUNTING OFFICE (PART IX COMMISSION REPORT)

Recommendation No. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

EXHIBITS

Exhibit A

Comptroller General of the United States,
Washington, October 26, 1955.

Hon. William L. Dawson,
Chairman, Committee on Government Operations,
House of Representatives.

Dear Mr. Chairman: This is in response to your request of August 18, 1955, for our views on the recommendations contained in the budget and accounting report of the Hoover Commission. Your request was previously acknowledged on August 19, 1955.

For your convenience, we have listed each of the recommendations immediately preceding our comments in the attached statement. In response to your specific inquiry concerning economies and efficiencies in budgetary control, we wish to call your attention particularly to our comments on cost based budgeting (recommendations Nos. 3 to 6, inclusive) and congressional appropriations in terms of estimated annual accrued expenditures (recommendation No. 7), We believe these recommendations, if successfully carried out, offer substantial opportunities for improved financial management in the executive branch and more effective congressional control.

Sincerely yours,

Joseph Campbell,
Comptroller General of the United States.

Statement Setting Forth the Views of the Comptroller General of the Budget and Accounting Report of the Hoover Commission

PART II. THE BUREAU OF THE BUDGET

Recommendation No. 1

(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(*b*) That in order to do this, among other things, it should place in important agencies one or more well qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

These recommendations pertain to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involve management decisions affecting that Bureau. We believe these are matters that can best be determined by the Bureau and the Congress and, accordingly, we offer no specific views in the matter.

Recommendation No. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Recommendation No. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

Executive agencies must necessarily submit a great deal of information to the Bureau of the Budget in carrying out the several steps of the cycle constituting the total budgetary processes, beginning with the submission of preliminary estimates and following through to the apportionment and monthly reporting processes. We believe that these data will be substantially more meaningful if cost based operating budgets are used for management purposes as proposed in Recommendation No. 3. This will permit periodic reports on accomplishments or performance to be related to budgets in terms of costs, the advantages of which are discussed more fully under Recommendations 4 to 6, inclusive.

We believe the President should be kept informed in a timely manner of significant factors relating to the operating agencies of the executive branch. The annual consideration of the budget of each agency serves as the basis for a review of operations. While the type of annual report intended under Recommendation No. 2 is not entirely clear, the desirability of a separate report for the executive branch as a whole seems questionable. We are inclined to think that the total Government area is so broad that information and evaluation is ordinarily most meaningful at the major program or bureau level.

PART III. THE PERFORMANCE (OR PROGRAM) BUDGET

Recommendation No. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Recommendation No. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Recommendation No. 6

That executive agency budgets be formulated and administered on a cost basis.

We believe the ideas contained in the foregoing recommendations, if effectively practiced, would offer a great opportunity for improvement in the financial management of executive agencies. The background discussion and explanation for the recommendations contained in the report of the Commission and its task force need not be repeated here.

Stated in summary fashion the more important advantages are:

1. Cost data (based on man-days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.
2. A proposed work plan (budget) stated in terms of costs (total resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.
3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.
4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influence.

The primary advantage of budgeting on a cost basis to both management and the Congress is that total resources to be used (on hand, on order, and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures, and costs in those many operations primarily concerned with personal services. On the other hand, dollar-wise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets. Major procurement, construction, and research and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

It should be noted that agency budgets can be formulated and administered on a cost basis under present practices of stating appropriation authorizations

on an obligation basis and this is currently being done in some cases. The cost presentation is confined to the justification material in the greater number of such instances. However, the impetus to furnish cost data to the Congress would be greatly enhanced by teaming up the cost based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 inasmuch as this provides the best opportunity for improved correlation of programming, budgeting, and accounting.

PART IV. RESTORATION OF CONGRESSIONAL CONTROL OF THE PURSE

Recommendation No. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

Congressional control of costs and expenditures can only be achieved by the maximum utilization of many tools. Budgeting on a cost basis and placing the executive budget and congressional appropriations on the basis of annual accrued expenditures can be made important tools for the Congress if effectively installed.

The basic need of the Congress is adequate factual data as a basis for decision making. The facts furnished to the Congress can be no better than those available to the management for its own purposes, that is, the needs of the two for financial and operating data, although differing as to extent of detail, are entirely compatible. It seems reasonable to conclude that the best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and (3) costs for both in terms of total resources consumed. With this point of departure the budget can then be assessed in terms of (*a*) costs to be incurred, (*b*) resources already available in terms of inventories, etc., plus carried-over funds, and (*c*) new money or authority needed. The essential difference in this approach, which ties in with the recommendations for cost budgets and accrued expenditure appropriations, as contrasted with present practices based on appropriations stated in terms of obligation authority is the degree of emphasis which the latter places on new money rather than total resources to be consumed and the extent of resources already available.

In the operations concerned primarily with salaries and travel expense the time relationship between the creation of an obligation and an expenditure is relatively short. Under such circumstances, resources available other than new money are ordinarily of no great significance and there is ordinarily a rather direct correlation between obligations, expenditures and costs. These are the operations which represent the larger group in terms of numbers but represent the less significant portion of the budget from a dollar standpoint. In the area of operations where long lead-time is characteristic such as, major procurement, construction and research and development, which represent the greater dollar portion of the budget, obligation, and expenditure data have their greatest limitations for both Congress and management.

The advantages of placing appropriations on an accrued expenditure basis are both tangible and intangible. The annual budget surplus or deficit is determined on the basis of expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress a much greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carry-over balances now available for expenditure at the discretion of the executive agencies. The present situation with respect to available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

On the intangible side, it has often been pointed out that there is, perhaps, an unavoidable implication that funds which have not been obligated are either not needed or are available in lieu of new money. This, of course, is a fallacious assumption when total authority is granted in a lump sum initially for activities involving long lead-time such as ship construction. Nevertheless, attention may well be diverted from the question of accomplishments at minimum cost over the period of the program to the one of almost sole emphasis on the amount of new money being requested. In the past, it has sometimes been said that expenditures are the inevitable result of granting obligation authority with the attendant implication that once having granted obligation authority

all opportunity for subsequent adjustment is lost. An examination of present day practices in the long lead-time area (procurement, construction and research and development) demonstrates the obvious fallacy of this reasoning as evidenced by the extensive reprograming, multitudinous changes in engineering plans and specifications during the period of production of many items and other similar factors. Because of these inherent factors in the operations involved, cost budgets, teamed with appropriations on an accrued expenditure basis, would require a type of continuing budget presentation that would bring out the adequacy of management planning or the lack of it and give the Congress an opportunity to have a voice in setting the level of operations from year to year.

It is inherent in the recommendations under discussion that congressional authority be granted for the advance planning which necessarily precedes the phase of operations covered in an annual accrued expenditure budget. In the past, this authority has been termed contract authorizations but it is a significant fact that heretofore both contract authorizations and subsequent appropriations were stated in terms of obligational authority whereas under the recommendations herein being considered only the initial authorization would be stated in terms of the broad and difficult to apply concept of obligations whereas annual authority could be stated much more definitely in terms of accrued expenditures because of the time factor. It is essential that the initial authority which may cover a forward period, sometimes as great as five years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and authorizations are practical when stated in terms of accrued expenditures. Thus, the current recommendations are not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

In view of the substantial changes that would be required to place into effect the recommendations for cost budgeting and appropriations on an accrued expenditure basis, it is believed that it is essential to approach such a change on the basis of individual programs or appropriations rather than any sweeping across-the-board plan. First of all, the successful use of these practices presumes a basic foundation of adequate accounting and the ability to program effectively. These fundamentals do not exist in a number of significant areas. To endeavor to adopt the proposals before the groundwork is laid for them could only lead to confusion and unsatisfactory results. Moreover, the greatest advantages to be attained are in the major procurement, construction and research and development areas. These appropriations are relatively few in number and it is logical to prove the value to Congress and the executive branch of the revised practices in such areas before extending the practices governmentwide in the areas where the advantages to be gained are significantly less. If this approach is adopted, the selection of areas to be converted should be a matter of mutual determination between the Congress, the Budget Bureau, and the individual agency. In a change of this magnitude, there is little to be gained and much to be lost by making uniformity across-the-board the criteria for adoption.

Recommendation No. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordinarily be enacted for a limited term in order to require periodic congressional review of their usefulness.

Recommendation No. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

The foregoing recommendations are primarily matters of policy for consideration of the Congress. In some instances, there may well be overriding considerations involving public policy. In general, the recommendations are consistent with the objective of strengthening congressional control and, if adopted, should prove helpful to that end.

PART V. ORGANIZATION FOR ACCOUNTING IN THE EXECUTIVE BRANCH

Recommendation No. 10

That there be established under the Director of the Bureau of the Budget a new staff office of accounting headed by an assistant director for accounting, with powers and duties as follows:

(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(*c*) To set reasonable but definite time schedules for performance and to watch progress.

(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training and retention of capable personnel.

(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. As the Committee on Government Operations is well aware, through its activities in connection with the Budget and Accounting Procedures Act of 1950, that statute recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget and the Comptroller General, for making continuing improvements in the financial management of Federal Government activities.

In its accounting and reporting provisions the statute clearly places responsibility upon the Comptroller General for principles, standards and related requirements; directs the General Accounting Office to cooperate with the executive agencies in the development of their accounting systems and to approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards and related requirements prescribed by him; and places upon the General Accounting Office the responsibility for the review of accounting systems of the executive agencies. As recognized in the report of the Hoover Commission on Budget and Accounting, the Comptroller General has equipped himself to carry out these responsibilities through the exercise of his accounting systems function. Particular stress in the report is laid upon the excellent cooperation developed between the General Accounting Office and the executive agencies. No diminution or change in this cooperative working relationship between the General Accounting Office and the executive agencies is contemplated, nor do we presume that any change is intended or implied by the recommendations under discussion.

Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950 of establishing and maintaining adequate systems of accounting and internal control in conformity with the principles, standards, and related requirements prescribed by the Comptroller General as referred to therein. It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of agency management to be successful. However, the added emphasis on getting the job done government-wide, contemplated by the above recommendation, could be very helpful in expediting progress if appropriately carried out. Such an effort need in no way be exercised in a manner inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States for the last several years. The essence of this arrangement is the recognition of the fact that each of the central agencies concerned, along with individual executive agencies, has a part to play in the total operation and that the desired results can only be achieved through joint efforts carried out with mutual respect for the responsibilities of each.

Recommendation No. 11

That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

(*c*) To develop and be responsible for reliable and informative financial reports for: (1) Internal management purposes; and (2) for issue to the Congress and other executive departments or agencies.

(*d*) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of this recommendation. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies. In the final analysis the responsibility for financial management must necessarily rest upon the head of each executive agency as a part of his total management responsibility. This has been made abundantly clear as a matter of statute in section 113 (a) of the Budget and Accounting Procedures Act of 1950, previously referred to above.

Recommendation No. 12

That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the assistant director for accounting in the Bureau of the Budget.

This recommendation is one facet of the larger problems commented upon in connection with the two preceding recommendations and is covered by our previous comments.

PART VI. ACCOUNTING PROCEDURES IN EXECUTIVE AGENCIES

Recommendation No. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

We emphatically endorse this recommendation. The unwarranted subdivision of funds is one of the greatest deterrents to improved financial management at the present time. However, it is likely that only when adequate accounting systems which can provide costs as a basis for operating control have been installed will administrators be willing to forego the type of control associated with many present allotment systems. The answer to this problem lies in better programing tied in with improved accounting through the development of budgets based on costs.

Recommendation No. 14

That Government accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

We endorse this recommendation as one facet which is essential to the accomplishment of the objectives set forth in a number of the other recommendations concerned with improved budgeting and accounting. Experience under the joint accounting improvement program clearly indicates that the accrual basis, when applied to significant items, is a major factor in providing better control over resources and liabilities and is an essential element in obtaining adequate cost data. As indicated in the report of the Commission, the General Accounting Office statement of accounting principles provides for the appropriate use of the accrual basis.

Recommendation No. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving

funds should be reviewed to determine whether they will add to efficient management.

The significant contribution which revolving funds have made as an expedient to localize an area for intensive effort to improve financial management is well known. It is important, however, to recognize that the establishment of the revolving fund method of financing has definite limitations in its applicability to Government operations. We do not regard it as a condition precedent to establishing financial management on a cost basis. Most Government programs will undoubtedly always be financed in whole or in part by the Congress through annual appropriations. Experience has proved that financing through appropriations need place no real obstacles in the way of the development of a single integrated system of programing, budgeting, accounting, and reporting on a full-cost basis. Accordingly, revolving fund financing should be regarded as a supplementary device applicable or useful in particular situations within this broader concept. For this reason, we agree that it would be desirable to review operations carried on under revolving funds to determine whether or not this method of financing adds to the opportunity for efficient management.

Recommendation No. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems

We endorse this recommenadtion for the reason that adequate monetary property accounting records, as an integral part of accounting systems, are essential to several other recommendations such as, accrual accouuting, cost budgeting, etc., as well as the specific advantages to management which will result from adequate financial accounting for property.

Recommendation No. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlliug the amouut available for the liquidation of valid obligations.

Recommendation No. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies.

We endorse the objectives of these recommendations and are engaged with the other ageucies concerned in developing a specific legislative proposal for the consideration of the Congress.

Recommendation No. 19

That the Comptroller Geueral be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

Since the time that this recommendation was developed by the task force and adopted by the Commission the situation has changed to the following extent:

1. The Congress enacted Public Law 365, 84th Congress, approved August 11, 1955, 69 Stat. 687, which provides permanent authority for the Comptroller General to relieve disbursing officers in cases where the making of any illegal, improper or incorrect payment was not the result of bad faith or lack of due care on the disbursing officer's part. This legislation is similar to the act of December 29, 1941, 55 Stat. 875, which authorizes the Comptroller General to relieve certifying officers under similar circumstances.

2. The Congress enacted Public Law 334, 84th Congress, approved August 9, 1955, 69 Stat. 626, amending the act of August 1, 1947, 61 Stat, 720, authorizing the General Accounting Office to grant full relief to accountable officers for a physical loss or deficiency of Government funds, vouchers, records, checks, securities or papers in their charge where no fault or negligence on the part of such officers is involved.

3. Under Public Law 147, 84th Congress, approved July 12, 1955, 69 Stat. 295, it is expected that the bulk of deceased military pay cases formerly required by law to be settled by this office, will be settled administratively. Moreover, the Department of Defense has recently been authorized and encouraged to adjust many types of claims and accounts which formerly were required to be forwarded to the General Accounting Office for direct settlement even though no real doubtful question was involved.

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In addition to the legislation described above, there have been significant improvements in the accounting of the administrative agencies through cooperative efforts under the joint program to improve accounting in the Federal Government which has, in turn, made possible significant changes in audit procedures consistent with the declaration of policy contained in section 111 of the Budget and Accounting Procedures Act of 1950. Further, auditing at the site where administrative accounts and records are kept has reduced materially the number of cases in which it has been necessary to state exceptions against accountable officers' accounts pending receipt of adequate information to warrant removal of the exceptions by this office.

Although the constructive steps referred to above have and will do much to improve the processes used as background for the recommendation, this office is not in agreement with the apparent objective of the recommendation that accountable officers be relieved of financial liability except where losses result from gross negligence or fraud. It is our view that accountable officers should be held responsible for payments in violation of specific provisions of law, in contravention of regulations of the administrative agency, or contrary to decisions of the Comptroller General issued for the guidance of accountable officers, except in situations where such payments are "* * * not the result of bad faith or lack of due care * * *", the standard laid down in Public Law 365. This is a standard we believe more conducive to sound public administration than one requiring demonstrated evidence that "gross negligence or fraud" was involved.

PART VII. CENTRAL ACCOUNTING AND REPORTING

Recommendation No. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate: (*a*) Duplicate accounts within the Treasury Department; and (*b*) duplicate accounting as between the Treasury Department and the various departments and agencies.

The General Accounting Office is in complete accord with the objective of the recommendation. Provision has been made effective with operations beginning July 1, 1955, for the operation of an integrated system among the different agencies which handle the cash transactions of the Government. A final link in the chain of improvements and simplifications in this area was provided by the joint action of the Comptroller General and the Secretary of the Treasury in the revision of Joint Regulation No. 4 and Treasury Circular No. 945 to permit authorized disburbing officers to draw checks on the general account of the Treasurer of the United States without the use of intermediate checkiug accounts with funded balances. Thus, the former elaborate system of advices, checks and deposits required to maintain funded balances in checking accounts for each disbursing officer was eliminated and complete responsibility for control of appropriations and fund expenditures was assumed by the administrative agencies.

Additionally, a further improvement over the former system was effected by providing within the framework of the central accounts certain basic financial data needed to anchor the receipts and expenditures of the Government to the cash in the Treasury. Provision was made in the central accounts for reflecting the amounts of: (*a*) Total checks outstanding, i. e., those issued which have not yet been paid by the Treasurer; (*b*) deposits in transit between Government agencies and Federal depositaries; and (*c*) the amount of cash held by Government officers outside the Treasurer's general account. These important items of assets and liabilities have not heretofore been a matter of central record in the Government's books and were considered to be major deficiencies in the proper disclosure of the Government's financial position.

Present plans as a result of the continuous study being made under the joint accounting improvement program include provision for eliminating the duplication of public debt accounts which now exists within the Treasury Department. As soon as it can be demonstrated that each administrative agency can report accurately and timely in such detail as to support the control accounts that are planned in the revised central accounts of the Treasury, consideration will be given to eliminating the maintenance of individual appropriation and receipt accounts in the Treasury central accounts. The revised reporting procedures for disbursing officers which were adopted July 1, 1955, are considered the first step toward testing the advisability and possibility of eliminating the detailed appropriation, fund, and receipt accounts in the Treasury.

It is significant that in a great number of cases, the present laws contain specific provisions for the maintenance of detailed accounts in the Treasury, even though it is obvious that the administrative agency concerned must also maintain the same detailed accounts to properly manage its program. As work progresses under this joint effort, needed changes in legislation will be identified and proposed. Present actions under the joint accounting improvement program are designed to expedite the atainment of the objectives of the recommendation at the earliest practicable date.

Recommendation No. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they may need the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Recommendation No. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

The objective of full disclosure of the financial results of the activities of the Government in a manner most useful to the executive branch, the Congress, and the public is fully endorsed by the General Accounting Office. The executive agency to be responsible for developing comprehensive financial reports is a matter for determination by the executive branch with the consent of the Congress and we offer no specific comment on this point.

Recommendation No. 21 refers to the incompleteness of the Treasury's annual combined statement in the area of cash held by Government officers outside the Treasurer's account, checks outstanding, information pertaining to the public debt, and trust and deposit liabilities. System revisions and procedural changes which were being developed and installed during the survey of the task force, now provide for the inclusion of data covering outstanding checks, undeposited collections, deposits in transit, and cash held by Government officers outside the Treasurer's account in the combined statement.

Although adequate central reporting can only be achieved after agency accounting systems, maintained on an accrual basis, have been developed sufficiently to provide reliable and concise financial data susceptible of consolidation, a comprehensive program to develop central reporting should be given a high priority and should be aggressively conducted by the executive branch. Such a program should also provide for an increased and continuing review as to the usefulness of the present published data. There is underway at the present time a project under the joint program of the Bureau of the Budget, Treasury Department, and General Accounting Office to improve the system of reporting the assets, liabilities, and financial transactions of all revolving fund operations and selected commercial-type enterprises. A draft of a Treasury regulation to replace existing instruction has been reviewed by all agencies of the Government and the reconciliation of the various views and comments should be completed shortly so that the regulation can become effective. This reporting requirement is tied in very closely to the requirements for reporting by these business-type enterprises under the budget process to enable the Bureau of the Budget and others concerned to compare financial progress of agency programs throughout the year against their budget estimates. This type of reporting will also fulfill a long recognized need for central financial statements reflecting the assets and liabilities of a large segment of the Government's operations.

PART VIII. THE DEPARTMENT OF DEFENSE

Recommendation No. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

Recommendation No. 24

That the comptrollers in the military departments be responsible only to the Secretary of their respective services, and that concurrent responsibility to a chief of staff or equivalent be discontinued.

We endorse the underlying objective of assuring competence of the individuals on whom responsibility for leadership in financial management is placed. With respect to the organizational implications contained in the recommendations, we believe that for the same reasons discussed under Recommendation No. 11 that the financial management function must be integrated with total management responsibilities in a manner consistent with the assignment of such responsibilites within the organization.

PART IX. AUDITING AND THE GENERAL ACCOUNTING OFFICE

Recommendation No. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

As a regular part of its comprehensive audit program and in the discharge of its accounting systems responsibilities, the General Accounting Office is continuously studying the adequacy of internal audit in Government agencies. Recommendations designed to improve the quality and effectiveness of their internal audit programs are made to heads of agencies, where appropriate. The results of these efforts are made available to the Congress through our regular reporting processes but we would be placed to cooperate with the Congress in any special effort having as its objective the improvement of internal auditing and which would lend impetus thereto.

EXHIBIT B

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., February 20, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of February 2, 1956, requesting the comments of this Bureau on the recommendations contained in the report on budget and accounting of the Hoover Commission on Organization of the Executive Branch of the Government.

In response to your original inquiry on this subject, we informed you last August that we were awaiting the views of the executive agencies upon the proposals made in this report before formulating our own positions with regard to them. Since then we have received and analyzed the agencies' comments and have completed our review of most of the recommendations contained in the report. There are a few of the recommendations, however, upon which for various reasons, as indicated below in our comments on each recommendation, we are as yet unable to express a definite opinion. With regard to those recommendations, we hope that we will be in position to supply you with our views by the time you hold your hearings next month.

Our comments on each recommendation contained in the report on budget and accounting are set forth below.

Recommendation No. 1

"(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

"(*b*) That in order to do this, among other things, it should place in important agencies one or more well qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

"(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose."

This is a broad recommendation, affecting practically every aspect of the work of this Bureau. It is not only related to other specific recommendations in the budget and accounting report but also to recommendations contained in a number of other reports of the Commission, for example those reports dealing with general services matters and with paperwork management. The determination of the full implications of the recommendation requires the most careful scrutiny of the present organization, programs, and resources of this Bureau and of its

relationships to the executive departments and agencies as well as the other components of the Executive Office of the President. Such a careful review is under way but is not yet complete. Consequently, we are not in position to offer specific comments upon this recommendation at this time.

Recommendation No. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Several alternative approaches have been suggested as to the manner of carrying out this recommendation. They are being studied in connection with the review referred to in our comments on Recommendation No. 1. Until that review is completed, we will not be in position to supply you with specific comments upon this recommendation.

Recommendation No. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

The agencies which have leadership responsibility for the joint accounting program—the General Accounting Office, Treasury Department, and Bureau of the Budget—consistently advocate the use of these techniques as useful tools for management and control of agency operations. The rate of progress toward further use of cost-based operating budgets is dependent in part upon the progress in installing and perfecting agency budget and accounting systems which provide cost information. As I am sure you are aware, the size and complexity of the operations of the Government are such that the full implementation of this recommendation is a long-range matter.

Recommendation No. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

The executive budget is now presented on the basis of functions, activities, and projects as recommended by the first Hoover Commission. We are continuously striving to improve and refine the presentation on this basis. For the past 2 years we have required agencies that have accrual accounting systems to submit statements on the cost basis as part of their budget justification materials. We intend to put further emphasis on the development of better information on accomplishments and performance in relation to costs. The additional step of presenting budgets on the cost basis in the budget document, where agencies have an accrual accounting system, will require further discussion with the Appropriations Committees of the Congress.

Recommendation No. 5

That the agencies take futher steps to synchronize their organization structures, budget classifications, and accounting systems.

We are in agreement with this recommendation and are giving the matter continuing attention as a part of the budget process and under the joint accounting program.

Recommendation No. 6

That executive agency budgets be formulated and administered on a cost basis.

Our comments on Recommendations Nos. 3 and 4 are also applicable to this recommendation.

Recommendation No. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

This recommendation involves the Congress as well as the executive branch. It raises numerous policy as well as technical issues. Our study of it has not been completed and we are therefore unable to supply you with any specific views regarding it at this time.

Recommendation No. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordinarily be enacted for a limited terms in order to require periodic congressional review of their usefulness.

This recommendation appears to be directed more to the Congress than the executive branch. We agree with the Commission as to the need for periodic review of such programs and bear it in mind in considering our recommendations pertaining to proposed new legislation.

Recommendation No. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

With respect to the first part of this recommendation, the Bureau of the Budget keeps all programs under continuous review, including the types of programs referred to in the recommendation. With respect to the second part of the recommendation, the President's budget from time to time includes forecasts of budget changes under proposed amendatory legislation.

Recommendation No. 10

That there be established under the Director of the Bureau of the Budget a new staff office of accounting headed by an assistant director for accounting, with powers and duties as follows:

(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(*c*) To set reasonable but definite time schedules for performance and to watch progress.

(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

This recommendation is under study as part of the overall review mentioned in our comments upon Recommendation No. 1 and we are not yet in position to supply you with our views regarding it.

Recommendation No. 11

That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

(*c*) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

(*d*) To interpret and advise upon significant aspects of the financial reports.

(*e*) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

This recommendation is directed toward the internal organization of the executive departments and independent agencies. When consulted by the agencies regarding such matters, this bureau takes the view that there should be appropriately coordinated organizational arrangements for budget and accounting—following the principle of organizational flexibility and avoiding an approach involving the imposition of a fixed pattern of organization on all departments and agencies.

Recommendation No. 12

That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training,

and retention of capable personnel be an important phase of the guidance and help to be given by the assistant director for accounting in the Bureau of the Budget.

This recommendation is directly related to Recommendation No. 10. In the past, agency heads have frequently consulted with this Bureau when seeking well-trained financial officers and the Bureau considers that it has a responsibility for being as helpful as possible in that regard. We interpret this recommendation as suggesting that the Bureau develop a more comprehensive and systematic approach to the discharge of that responsibility. We agree that we can and should improve our capacity to assist the agencies in finding the best possible financial, administrative, and other types of personnel, but cannot comment more specifically upon this recommendation until the completion of the review mentioned in our comments upon Recommendations Nos. 1 and 10.

Recommendation No. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Continuing effort is being made to simplify agency allotment systems under the joint accounting program, but we agree that much more must be achieved. As was pointed out in the report, a great deal of the difficulty has been caused by the agencies themselves because of the manner in which the appropriations have been allotted and suballoted within the agencies.

Recommendation No. 14

That Government accounts be kept on the accrual basis to show currently, completely and clearly all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

The installation of accounting systems on the accrual basis is one of the major objectives of the joint accounting program, particularly in those agencies which have business- or commercial-type operations and large construction or complex operating programs, where accrual information is very valuable for management and budgetary purposes. As indicated in our comments on several other recommendations, the modernization of the accounting systems of the entire Government is a long-range matter. This recommendation is basic to the fulfillment of other recommendations such as 3, 6, and 7.

Recommendation No. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

The need for or creation of revolving funds is given continuous attention through the budget process and under the joint accounting program. This attention will be continued from the point of view of efficient management.

Recommendation No. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

As indicated by this recommendation, work on installation of monetary property accounting records is already underway. Considerable progress has been made in the installation of property accounting systems but much remains to be done including the integration of property accounting into the regular accounting systems. The Budget Bureau will do everything possible to expedite this program.

Recommendation No. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Legislation is being developed under the joint accounting program to achieve the objective sought by this recommendation. We hope that it will be possible to perfect a proposed bill for the consideration of Congress at the current session.

Recommendation No. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies.

The matter dealt with in this recommendation will be included in the proposed bill referred to in our comments on Recommendation No. 17.

Recommendation No. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

Last year the Congress enacted Public Law 365, approved August 11, 1955, under which the Comptroller General may relieve disbursing officers of illegal, improper, or incorrect payments under certain standards. Also of pertinence is 31 U. S. C. 82c, which permits the Comptroller General to relieve certifying officers of liability for any otherwise proper payments under certain conditions. We are unable, at this time, to express a view whether additional legislation is needed to accomplish the purposes of this recommendation.

Recommendation No. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate: (*a*) Duplicate accounts within the Treasury Department; and (*b*) duplicate accounting as between the Treasury Department and the various departments and agencies.

We interpret part (*a*) of this recommendation as referring to public debt accounting. Steps toward improvement in that area are currently being taken by the Treasury Department.

Part (*b*) of the recommendation is in line with one of the objectives of the joint accounting program. This program is working toward the maintenance in Treasury of summary appropriation and receipt accounts to replace the individual accounts now maintained. The changes in Treasury will be made gradually, however, and only when experience indicates that agency accounts are reliable and audited by the GAO at the site of operations. As contemplated by the recommendation, Treasury would then maintain summary accounts with the details by appropriation and receipt symbols being reported to Treasury periodically by the agencies.

Recommendation No. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they may meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

As noted in our comments in Recommedation No. 20, the improvement of central accounting and reporting are of continuing concern under the joint accounting program. A new central accounting system was placed in effect on July 1, 1955, which is designed to produce an integrated set of cash accounts for the Government as a whole. We believe that the perfection of this new accounting system will achieve the results which the Commission was seeking in making Recommendation No. 21.

Recommendation No. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

We agree with the objective of improving the Government's financial reports which the Commission appeared to have in mind in making this recommendation. The specific approach which should be taken toward the achievement of this objective, and the location of responsibility therefor, however, are still under study. Until that study is completed, we will be unable to comment further upon this recommendation.

Recommendation No. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

This recommendation pertains to the internal organization of the Department of Defense, a matter which is dealt with extensively in the Commission's report on business organization of the Department of Defense. Until we have received the comments of the Defense Department on the report on business organization of the Department of Defense, we will be unable to express our views on this recommendation.

Recommendation No. 24

That the comptrollers in the military departments be responsible only to the Secretary of their respective services, and that concurrent responsibility to a chief of staff or equivalent be discontinued.

Our comments on Recommendation No. 23 also apply to this recommendation.

Recommendation No. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

The subject of internal audit and its application in the Government is being given continuous attention under the joint accounting program. When an internal audit system has been properly installed, it has been found to be of considerable assistance to the General Accounting Office in the performance of its audit. The Bureau will consider with the other agencies having leadership responsibilities for the joint accounting program the question whether the current emphasis on internal audit improvement will achieve the objective sought by the Commission or whether there should be established a special project or projects in this area.

It has been very helpful to us to analyze these stimulating recommendations, and to take a good, hard look at our own procedures. We feel confident tha much good will come from these suggestions, and appreciate the opportunity afforded by your committee to express our views on the important matters dealt with in this report of the Commission on Organization of the Executive Branch.

Sincerely yours,

ROBERT E. MERRIAM,
Assistant to the Director.

EXHIBIT C

THE SECRETARY OF THE TREASURY,
Washington, January 3, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in further reply to your letter of August 18 asking for the Department's comments on the Hoover Commission Report on Budget and Accounting. You asked particularly for our views on the overall effect of the recommendations and possible savings.

The recommendations on budgeting would have the general effect of increasing control by the Congress and the executive branch over expenditures during a particular budget year. The lack of such controls has been a serious defect, and the proposed measures represent an important step toward what the Treasury believes should be our goal in the mechanics of Federal financing: the complete linking of current operating costs with revenue measures to pay for them. Although the Treasury is not in complete agreement with the Commission's recommendations for organizing the accounting function, we are in favor of the specific suggestions for simplifying and improving accounting procedures.

In our opinion, adoption of the various proposals will produce savings in improved management resulting from more realistic forward planning and work programing, and increased cost consciousness in the executive branch, and from strengthened congressional controls. Such savings, of course, are intangible and cannot be documented. Tangible savings in the actual mechanics of the system probably will be slight, and may very well be offset initially by the expense of the changeover to the new procedures. The more detailed comments of the Department are attached.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of these comments to your committee. We have been further advised that the relationship of the views expressed in the comments to the program of the President has not been determined, and that the comments shall not be construed as a commitment regarding legislation which has been or may be proposed to carry out recommendations of the Commission.

Very truly yours,

G. M. HUMPHREY,
Secretary of the Treasury.

COMMENTS ON REPORT OF COMMISSION ON ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT ON BUDGET AND ACCOUNTING TREASURY DEPARTMENT NOVEMBER 1955

BUDGETING

Recommendation No. 1

(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(*b*) That in order to do this, among other things, it should place in important agencies one or more well qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

Recommendation No. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Comments

Recommendations (*a*) and (*c*) are matters for decision by the President and the Congress.

The Bureau already has close working relationships on budgetary matters with the departments and agencies. We doubt if the advantages of recommendation (*b*) would warrant the added expense.

Reports on operations and performance would be beneficial if thoroughly analyzed and used by the Budget Bureau as working tools in reviewing the department's budgetary requests.

Recommendation No. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

Recommendation No. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Recommendation No. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Recommendation No. 6

That executive agency budgets be formulated and administered on a cost basis.

Recommendation No. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

Recommendation No. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordinarily be enacted for a limited term in order to require periodic congressional review of their usefulness.

Recommendation No. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

Comments

We are in general agreement with the objective of these recommendations, which is to increase congressional and executive control over expenditures.

We suggest, however, that the proposed changeover to budgetary and ac-

counting on the basis of annual accrued expenditures be preceded by a study by the Budget Bureau of areas where it is most necessary, such as in long "lead time" programs of the Defense Department. The plan should be tested in these areas before extension to departments where budgets are based primarily on personal services and where obligational authority does not differ substantially from current expenditures.

Recommendation No. 10

That there be established under the Director of the Bureau of the Budget a new staff office of accounting headed by an assistant director for accounting, with powers and duties as follows:

(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(*c*) To set reasonable but definite time schedules for performance and to watch progress.

(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

Comments

The proposed organizational arrangements would continue the present dual responsibility for accounting systems of the legislative and executive branches. The Treasury agrees with the original recommendation of President Hoover to Congress in 1932 that the power to prescribe accounting systems should be transferred to the executive branch.

The present system of dual responsibility has worked only because of the exceedingly cordial relations which have existed among the agencies involved, but it has serious defects from an organizational point of view. The audit function of the Comptroller General is weakened by the fact that his agency must prescribe accounting systems which he is required by law to audit. On the other hand, the executive branch, which is responsible for administering the funds, is not given full authority to prescribe accounting systems. From the standpoint of sound organization and desirable checks and balances, the executive branch should have full control over the type of accounting systems it deems necessary. If, upon audit, the system is found to be unsatisfactory, the General Accounting Office should make recommendations for its improvement.

Recommendation No. 11

That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

(*c*) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

(*d*) To interpret and advise upon significant aspects of the financial reports.

(*e*) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

Recommendation No. 12

That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the assistant director for accounting in the Bureau of the Budget.

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Comments

The concept of the comptroller, although useful in certain organizations, is not desirable or necessary in all agencies, and we do not believe the position should be established on a mandatory basis. To do so would abrogate a principle of the earlier Hoover Commission that department heads should be responsible for determining the most suitable organization of the functions under their direction.

ACCOUNTING PROCEDURES

Recommendation No. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Recommendation No. 14

That Government accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities, and the cost of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

Recommendation No. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

Recommendation No. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Recommendation No. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Recommendation No. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies.

Recommendation No. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

Comments

We agree with these recommendations. In regard to the last three recommendations, the Treasury has assisted or is assisting in drafting appropriate legislation to carry out the proposals.

CENTRAL ACCOUNTING AND REPORTING AND AUDITING

Recommendation No. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate (a) duplicate accounts within the Treasury Department, and (b) duplicate accounting as between the Treasury Department and the various departments and agencies.

Recommendation No. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they may meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Recommendation No. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results

of the activities of the Government as a whole and of its major component activities.

Recommendation No. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

Comments

We are in complete agreement with the objectives of the first two recommendations above. These are objectives of the joint accounting program, however, which already have been realized partially, and we do not believe that additional studies are necessary.

Recommendation No. 22 hinges on the establishment of an office of accounting in the Bureau of the Budget as proposed in Recommendation No. 10. We have already noted our comments on this recommendation.

As for Recommendation No. 25, the Treasury would have no objection to such a study.

Recommendations No. 23 and No. 24

Relate to the comptrollership function in the Defense Department and do not affect the Treasury.

EXHIBIT D

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
Washington, D. C., December 14, 1955.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. CHAIRMAN: In further reply to your request, inclosed herewith are the views of the Department of Defense on the Commission on Organization of the Executive Branch of the Government Report on Budget and Accounting. It is the intention of the Department of Defense that each of the Commission reports receive careful study and evaluation within the Department of Defense. Accordingly, it may be that after further consideration of this report we will have supplemental comments to make.

It should be noted that the inclosed views are solely those of this Department and their relationship to the program of the President has not been determined. Accordingly, these views should not be construed as a commitment regarding legislation which has been or may be proposed to carry out the recommendations of the Commission.

Sincerely yours,

LORNE KENNEDY,
Deputy, Legislative Affairs.

DEPARTMENT OF DEFENSE VIEWS ON IMPLEMENTATION OF REPORT ON BUDGET AND ACCOUNTING, BY COMMISSION ON ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT, OCTOBER 1955

(These comments are those of the Department of Defense and should not be considered as representing the position of the administration. Also they do not necessarily represent the final conclusions of the Department.)

Recommendation No. 1

(*a*) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(*b*) That in order to do this, among other things, it should place in important agencies one or more well-qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(*c*) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

Department of Defense position.—Concur in principle.

Comments.—The Bureau of the Budget and the Department of Defense already have long-established arrangements whereby well-qualified employees of the Bureau are assigned on a continuing year-round basis to review of agency budgets and other aspects of financial management of all components of the Department

of Defense. Much of these reviews are conducted on the site. The constructive results of these arrangements are acknowledged. The staff of the office of the Secretary of Defense is also engaged in reviews of agency budgets and other aspects of management of the military departments; this should mean a lesser requirement for review by representatives of the Bureau of the Budget.

Parts (*a*) and (*c*) of this recommendation relate to expansion of the Bureau and increase of its resources. It is believed "reorientation" of the Bureau's emphasis on managerial functions and on operating budgets rather than upon formulation of the annual President's budget might result in more effective utilization of present personnel and resources.

Implementation.—Primarily by the Bureau of the Budget but Department of Defense will cooperate.

Recommendation No. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Department of Defense position.—Concur.

Comments.—The Department of Defense believes this recommendation to be a constructive one and would cooperate wholeheartedly in its implementation. However, it is addressed to the President and the Bureau of the Budget for application upon a governmentwide basis. If this recommendation were implemented, great care would be required in selecting the types of data to be included and the manner of presentation; there would be great danger that such reports would not serve the intended purpose.

Implementation.—Department of Defense will cooperate in the establishment of such a program, if it is established on a governmentwide basis.

Recommendation No. 3

(See recommendation No. 7.)

Recommendation No. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Department of Defense positions.—Concur. See Recommendation No. 5 below for comments and implementation.)

Recommendation No. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Department of Defense positions.—Concur.

Comments.—These two recommendations are a statutory requirement of section 403 of the National Security Act, as amended. In this respect, the following significant statement of basic principles is contained in the Senate Armed Services Committee Report on the National Security Act Amendments of 1949.

Basic principles.—The underlying principles of the performance budget are clear and simple. The performance budget contemplates—

(*a*) That all costs relating to a logical and identifiable program be included as a project or a budget program for presentation and justification by the department concerned to the Bureau of the Budget, the President, and the Congress, and for administration and reporting after the appropriation of moneys;

(*b*) That there be a logical and, so far as practical, uniform grouping of projects or budget programs by the primary functions of the military departments, with this grouping paralleling, so far as possible, the organization and management structure;

(*c*) That there be a segregation between capital and current operating categories.

While much progress has been made by the Department of Defense (with the aid and encouragement of the Appropriations Committees), there are still some desirable additional improvements required in order to attain the full objectives with respect to both recommendations.

One important special problem which is now being studied, by request of the House Appropriations Committee, concerns the budgeting, appropriation, and accounting for the element of military personnel cost of support-type activities like any other elements (objects) of cost of such activities—that is, such costs

should be appropriated for and accounted for as part of the total costs of the respective programs, functions, or activities. It is noted that the Commission's report appears to endorse this objective (see p. 38).

Implementation.—Department of Defense will continue development in connection with implementation of title IV of National Security Act, as amended.

Recommendation No. 6

(See Recommendation No. 7.)

Recommendation No. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

Recommendation No. 6

That executive agency budgets be formulated and administered on a cost basis.

Recommendation No. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

Recommendation No. 14

That Government accounts be kept on the accrual basis to show currently, completely and clearly all resources and liabilities, and the cost of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

Recommendations 7, 6, 3, and 14 are related with respect to the technical bases of budgeting and accounting for governmental funds for the purposes of congressional, presidential, and agency control. It is desirable to comment upon them as a group. These four recommendations deal with the financial management process through budget formulation and appropriation, the operating budget and establishing allocations and allotments, and account keeping and financial reporting. The Commission proposals in this area include (1) basing appropriations on estimated accrued expenditures, and (2) in addition providing congressional contract authorization to cover procurement, construction, etc. Only the first aspect of this proposal is included in the numbered recommendations, leaving the second aspect to be extracted from the supporting text of the Commission report (see p. 23). It is possible to deal with the matter more clearly if both aspects of the Commission proposal, as described on page 23, are recognized as included.

Department of Defense position: Concur in principle but believe that recommendations as stated are not complete. See comments below.

Comments.—Bases of budgeting and accounting: The use of the accrued expenditure and cost bases of budgeting and accounting would contribute greatly to financial controls at all levels. However, it is important to properly define these terms.

The "accrued expenditure" basis should be understood to include charges for progress payments under long-term contracts as well as charges for the cost of goods and services received during the budget year under other contracts and employment arrangements, as recognized by the task force on page 38 of its report. In the case of construction work and procurement of much heavy military equipment, contractual payments are required to be made during the course of performance of the contracts in order to finance the contractors, and such payments are in advance of the receipt of the goods or completion of construction—such amounts also represent accrued expenditures when properly charged.

The "cost" basis should be understood to mean:

(*a*) In the case of acquisition of property—cost of resources applied in procurement, production, or construction of such property actually received or completed, and

(*b*) In the case of operating activities—cost of resources consumed in operation and maintenance, excluding depreciation or write-offs of capital assets employed in operation or maintenance except for industrial- and commercial-type activities where improved management tools would result, as may be appropriate under approved Government policy.

It appears desirable to state the general understanding that application of the accrual basis of accounting should be modified in the Federal Government to exclude depreciation on capital property except for industrial- and commercial-

type activities in those instances where improved management tools would result, as may be appropriate under approved Government policy. This is the generally accepted principle of application of the accrual basis of accounting in American State and local governments which utilize it. And we believe it is generally agreed that no useful purpose would be served by estimating or recording monthly or annual depreciation on military buildings and structures, ships, aircraft, combat vehicles, guns, etc.

It is important in financial control to budget and account for the cost of acquisition of all property (including both capital property and consumption-type materiel, or inventories, the cost of which is chargeable to operations when consumed).

Budgeting and accounting for the cost of acquisition of property presents special problems in the Department of Defense because of the immense amount of construction of facilities and procurement and production of materiel, all of which has a long lead-time between planning (or programing) and completion or delivery. Control of cost of acquisition demands advance budgeting, authorization of, and accounting for costs of procurement, production, and construction, as well as for expenditures. Currently such budgeting, authorization, and accounting are provided in terms of "obligations" as well as expenditures. As noted above, in recommending institution of the use of the accrual and cost bases of accounting, the Commission's recommendations did not include in the formal budget and reports of the obligation basis of advance cost authorizations. That such inclusion was intended appears evident from the report discussion, page 23.

Basis of congressional appropriation: In the report discussion (p. 23) it is brought out that in recommending change in the basis of congressional appropriations to accrued expenditures, the Commission recommends use of additional contracting authority to cover construction, procurement, and production involving expenditures beyond the budget year. This would assure continuance of the present type of obligation control, although in a different form.

As indicated in the Commission's report, the Assistant Secretary of Defense (Comptroller) of the Department of Defense has previously expressed the opinion that the idea of an annual expenditure budget has merit, and that while there are certain administrative difficulties to be overcome, he does not believe them to be insurmountable. Such difficulties are concerned primarily with the difficulty of estimating the year of delivery of material or performance of services under long-term contracts. As a result, it would be impossible to precisely predict or estimate in which fiscal year the contract expenditures might fall. Therefore, it should be understood that unexpended balances of appropriations at the end of any fiscal year for the purpose of meeting contractual payments should be carried over to cover the expenditures to the extent they may subsequently materialize. It should also be understood that when the Congress authorizes obligations to be undertaken without simultaneously authorizing payments by appropriation action (to the extent it is estimated expenditures will not be payable during the same year the obligations are placed), the legal consequence is that the Congress (or any future Congress) is committed to making future appropriations to meet the required payments (including settlement of claims in the case of contracts terminated for the convenience of the Government.)

Inasmuch as the proposed contract authority eventually results in payments by the Government, it may well be asked what purpose is served by deferring the making of appropriations in full to cover such payments. Does this provide more congressional control? In a strict theoretical sense, it does not increase congressional control. However, the proposed division of contract and expenditure authority might well have the result of providing an incentive for improved expenditure budgeting and improved production and performance scheduling, with resultant economies. At least, by substitution of contract authority for advance appropriations, the substantial reduction of the present large annual carryover of appropriation authority, reserved to cover all future payments under contract obligations, should result in better understanding of the Federal budget. Certain other advantages cited in the Commission's report are not believed to exist. The proposed system would not enable the Congress, at the time it considers appropriations for expenditure, to reconsider past actions in granting contract authority any more than it can act today to rescind past appropriations. (The Congress can always rescind appropriation authority to pay existing obligations, if it desires to have contracts cancelled or cut back, but it must provide for payment of losses for such contract settlements.) Moreover the proposed system would not operate to remove any incentive which may exist to obligate all available obligational authority before the end of each fiscal year.

That portion of the recommendation concerning making of congressional appropriations in terms of accrued expenditures would not require implementation in order to permit the use of the accrued expenditure and cost bases of budgeting and accounting (in addition to the obligation basis) for the purposes of executive and congressional control.

If this recommendation is accepted by the Congress for application on a government wide basis, there should be a period of at least 1 year, for the purpose of study and preparation, before placing the plan into effect.

Financial control through operating budgets:

Although the Commission report uses the terms "executive budget" and "operating budgets," it does not distinguish between them. It should be understood that the "executive budget" means the President's budget which is submitted to Congress in support of appropriation requests. The annual executive budget must be completed and submitted more than 6 months before the beginning of any fiscal year for consideration by the Appropriations Committees. It is rendered out of date by actions of the Congress in appropriating funds, as well as by the lapse of time and changing events.

For these reasons, it is necessary to revise the budget at the beginning of each fiscal year. It is also necessary to greatly amplify and subdivide the budget by individual activities within each agency for purposes of internal management. These revised and extended budgets may be termed "operating budgets." It is assumed, however, that the several bases of budgeting and accounting and the account classifications (except for differences in detail) would be the same for both budgets (the operating budget would be in greater detail).

Operating budgets should be used for purposes of "apportionment" of funds (i. e., obligation and expenditure authority) by the Director of the Bureau of the Budget, as well as in making fund allocations within the agencies, as recommended by the Commission. It is assumed the Commission did not intend to imply elimination of the apportionment process.

Fund allocations and allotments (see Recommendation 13) should be considered simply as approvals and overall limitations of operating budgets at every level by the respective appropriate authorities within each agency.

If, as recommended by the Commission, the Congress were to separately provide contract authority for construction, procurement, and production, it is assumed that apportionments, allocations, and allotments would also be appropriately subdivided between such contract authority and expenditure authority.

Implementation of these recommendations in Department of Defense, the Department of Defense subscribes to the use of the accrued expenditure and cost bases of budgeting and accounting, in addition to the obligation basis, subject to the explanations set forth above. It has been engaged in extensive development work leading to this end through implementation of title IV of the National Security Act, as amended. In particular, the utilization of working capital funds results in consumer budgets being stated upon the basis of cost of resources consumed. Moreover, the installation of financial accounting for property is a necessary major step in this direction. The full utilization of the accrued expenditure basis of budgeting and reporting in the congressional budget (as distinguished from management's operating budgets and reports) will depend upon Governmentwide development and upon congressional authority.

It is desired to correct what may be an erroneous implication in a quotation from the task-force report (pp. 13 and 14), as follows:

"At the present time most budgets are prepared on the basis of estimated obligations to be incurred during the budget year. Obligations are orders placed, contracts awarded, services received and similar transactions during a given period requiring future payment of money. Obligations to be incurred during the year do not necessarily have any relation to costs to be incurred during the year.

The task force states:

"(*a*) Such a budget presentation fails to take into account inventories and other working capital carried over and available at the beginning of the year which may be consumed in the programs of the budget year.

"(*b*) It excludes materials which may become available during the budget year on the basis of prior year obligations, or resources which are estimated to be carried over to the following year. Obviously, such inventories and materials should be considered in establishing the level of funds required to accomplish a program.

"(*c*) The accounting data required in formulating and controlling agency budgets is that which reflects the costs of goods and services to be consumed

in carrying out budget programs, in other words, estimated 'costs incurred.' The important thing in budgeting is the work or service to be accomplished and what that work or service will cost. Current Government practice, concerned primarily with incurring obligations, does not contribute to a determination of the costs of work or service to be paid for in the period under review. It fails to relate planned operations to past and projected costs."

Although, in fact, the criticism is addressed to the manner of presentation of the congressional budget, it might be interpreted by many as a criticism of the underlying method of determining requirements for additional obligation authority—namely, that existing resources of inventories, goods on order, and unobligated balances of prior years' appropriation, receive no consideration in determining such requirements for additional obligation authority. Such an interpretation would not be true in the case of the Department of Defense—quite the contrary is true.

Implementation.—Department of Defense will continue with installation of the accrued expenditure and cost bases of budgeting and accounting, primarily with respect to implementation of title IV of the National Security Act, as amended, and subject to such governmentwide requirements as may be imposed by law or regulations of the Bureau of the Budget, Treasury Department, and General Accounting Office. It will also develop in connection with implementation of title IV the utilization of these bases of budgeting and accounting, as well as the obligation basis, in internal budgetary administration and other aspects of financial control, including reporting. If requested, the Department of Defense will also support that part of recommendation No. 7 which concerns the institution of a system of congressional appropriations in terms of estimated annual accrued expenditures with separation of contract authority to cover additional obligations for procurement, production, construction, etc., but only if provision is made for continuing the merits of the obligational basis.

Recommendation No. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordinarily be enacted for a limited term in order to require periodic congressional review of their usefulness.

Recommendation No. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

Based upon the explanation in the Commission's report, these two recommendations are not applicable to the Department of Defense.

Recommendation No. 10

That there be established under the Director of the Bureau of the Budget a new staff office of accounting headed by an assistant director for accounting, with powers and duties as follows:

(*a*) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(*b*) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(*c*) To set reasonable but definite time schedules for performance and to watch progress.

(*d*) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(*e*) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

In addition, it is indicated elsewhere in the Commission's report (p. 49) that the preparation and publication of a comprehensive central reports on a governmentwide basis should be a function of the Bureau of the Budget, and that this function would be exercised under the proposed assistant director for accounting.

Department of Defense position.—Concur in principle.

Comments.—This recommendation is addressed primarily to the Director of the Bureau of the Budget. The Department of Defense sees merit in this recommendation from the standpoint that it would provide a better means of

achieving improved, intergrated budgeting and accounting for the Government as a whole, and this would have an impact upon the Department of Defense as well as other Government agencies. Logically, the functions of budgeting and accounting improvement go hand in hand, and both are properly placed within the executive branch of the Government.

It is not clear what impact this recommendation is intended to have on the functions of the Comptroller General and General Accounting Office. While cooperation would still be required between Bureau of the Budget and General Accounting Office, it would appear to be desirable that, in accordance with the recommendation, the leadership in the joint accounting improvement program should be passed from the Comptroller General to the Director of the Bureau of the Budget.

With respect to paragraph (*d*) above, it would be considered inappropriate and not potentially effective for the assistant director for accounting to undertake to select agency personnel for accounting and auditing positions. Nevertheless, he might advise and assist in such actions to the extent requested, and he could provide assistance through setting standards for selection, training, and retention of capable personnel.

Implementation.—None needed by Department of Defense.

Recommendation No. 11

That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(*a*) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(*b*) To direct the recruitment, training, and development of qualified accounting personnel.

(*c*) To develop and be responsible for reliable and informative financial reports for: (1) Internal management purposes; and (2) for issue to the Congress and other executive departments or agencies.

(*d*) To interpret and advise upon significant aspects of the financial reports.

(*e*) To direct the preparation and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

Department of Defense position.—Concur subject to qualification that actual recruitment, training, and development of qualified personnel should be conducted in collaboration with the appropriate personnel officials.

Comments.—The position of comptroller has been established in each of the military departments, as well as for the Department of Defense, pursuant to title IV of the National Security Act, as amended. The position of comptroller has been established, also, in the major subdivisions of each of the military departments. Further reference is made to comptrollers in the Department of Defense under recommendations No. 23 and No. 24.

The comptroller's functions, as recommended by the Commission, greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, his budget responsibilities are even greater. The Commission's report does not adequately set forth the concept that the comptroller (or the assistant secretary for financial management) should provide an independent review and analysis of budgets, as well as reports on performance, and that he should assist the Secretary of the department as a coordinator in reconciling and balancing with each other, the budget claims for financial support by the several fields of operating interest (each of which has its advocate at top level) with the potential resources, including spending authority granted by the Congress. This does not mean that the comptroller (or assistant secretary for financial management) actually controls the operations, or serves as a general manager, or is the superior of his teammates who have responsibility for actual operations in their respective fields. The Department of Defense has been active in the development of this concept in the Federal Government.

Implementation.—Department of Defense will continue to be active in the development of this concept in the Federal Government.

Recommendation No. 12

That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, train-

ing, and retention of capable personnel be an important phase of the guidance and help to be given by the assistant director for accounting in the Bureau of the Budget.

Department of Defense position.—Concur in principle.

Comments.—The Department of Defense believes that any guidance and help in the selection and training of comptroller personnel should apply to a much broader area than the field of accounting, which is the recommended primary area of interest of the recommended assistant director for accounting in the Bureau of the Budget. Comments concerning the extent of assistance to the agencies in personnel matters are stated in the comments with respect to recommendation No. 10.

Implementation.—Department of Defense will utilize such assistance.

Recommendation No. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Department of Defense position.—Concur in principle.

Comments.—The Department of Defense concurs in this recommendation, provided it is understood that some military department installations may have more than one operating unit located thereon. Guidance towards this objective has already been furnished the military departments by the assistant secretary of defense (comptroller), and considerable progress has been made during the past two fiscal years (especially in gaining acceptance of the concept and objective by all concerned, both inside and outside the Department of Defense) although much remains to be accomplished.

One of the major requirements for further reductions of unnecessary "pockets of funds" is believed to be the further development of the method of financing cross-servicing between departments upon a reimbursable basis, rather than by separate citation of the ordering agency's funds in connection with individual transactions affecting the cost of work ordered. Working capital funds have provided one solution of this difficulty, although this is not a primary objective of the use of such funds. Further development in this direction of financing services upon a reimbursable basis, under the allotment of the performing activity, awaits changes in Budget-Treasury Regulation No. 1 by the Director of the Bureau of the Budget and the Secretary of the Treasury, with the collaboration of the Comptroller General.

Implementation.—The Department of Defense will continue to take actions within its power in simplification of the allotment system.

Recommendation No. 14

(See recommendation No. 7.)

Recommendation No. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

Department of Defense position.—No objection to review but nonconcur in implication.

Comments.—The Department of Defense does not understand this recommendation, especially since the use of working capital funds facilitates and simplifies application of the accrual basis of accounting and cost accounting techniques. It might imply that implementation of the recommended accrual and cost accounting techniques for appropriated funds would make obsolete the further use of working capital funds in the military departments. The Department of Defense would not agree with such an implication, if that is intended.

The report includes a brief statement of advantages and disadvantages of revolving funds (pp. 39 and 40). The statement of advantages is correct (although it is incomplete, especially from the view point of congressional control). Management, as well as accounting advantages are recognized. However, the statement of disadvantages (quoted from the Commission's task-force report), is, in our opinion, incorrect.

The following statement is made by the task force with respect to the disadvantages:

> The principal disadvantages of these revolving funds are that they minimize congressional control of agency operations and that their widespread use can result in too many pockets of funds which become cumbersome from the standpoint of efficient administration.

The use of revolving funds actually increases congressional control. Congress has full control over the amount of capital in these funds (and, therefore, inventory levels and procurement of stocks represented thereby) through its power to appropriate for such increased capital requirements as may be justified by the agency, and to reduce excess capital requirements by rescission. Both types of action are normal procedure, although as a temporary measure until January 1, 1955, the Congress granted the authority to the Department of Defense, subject to approval of the President, to transfer unexpended balances of appropriations to working capital funds in order to initially finance new installations and additional categories of materiel. It is of interest that stock funds have returned to the Treasury, by action of the Congress in the past 2 years, or are returning during the current fiscal year, more than $1 billion, a large part of which represented liquidation of excessive inventories under improved supply management facilitated by the use of working capital funds.

Moreover, the use of working capital funds permits the Congress to control by separate appropriation action to the using activities the cost of goods and services consumed by them. Without the use of working capital funds, it would only control through appropriation action for new procurement of materiel generally.

The use of working capital funds does not result in any more "pockets of funds" than the minimum which would be required for efficient administration without working capital funds, based upon the standards set forth in Recommendation No. 13. In fact, under present regulations of the Director of the Bureau of the Budget, Secretary of the Treasury and the Comptroller General, the use of working capital funds greatly reduces the number of "pockets of funds" in industrial and commercial type activities (in fact, this is stated in the Commission's report as an advantage of working capital funds). Although there are possible alternative ways to simplify fund control and accounting in such cases without the use of working capital funds, the Commission's task force has not covered them in its recommendations. However, such technical corrections would still not enable the Department of Defense to obtain the management advantages inherent in the use of working capital funds.

After issuance of its report on budget and accounting, the Commission released its report on "Business Organization of the Department of Defense." This was a more comprehensive study of management and organization by a separate task force headed by Mr. Charles R. Hook, Sr. By endorsement of that report, the Commission accepted without qualification or reservation the use of working capital funds and recommended their extension wherever suitable. No disadvantages were found. It may be considered, therefore, that the later report serves to correct the budget and accounting report in this respect.

Implementation.—The Department of Defense will cooperate in any review which may be undertaken.

Recommendation No. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting system.

Department of Defense.—Concur.

Comments.—The Department of Defense is required by law to meet this objective.

The military departments have more property than other Government agencies, and the conditions under which property must be accounted for are unusually difficult. While varying degrees of progress have been made in each of the three military departments, much remains to be accomplished—especially in integrating property accounting with fund accounting and in extension overseas of financial accounting for property. The use of working capital funds, wherever appropriate, facilitates integration of financial accounting for property and fund accounting.

Implementation.—The Department of Defense will continue its efforts to install adequate financial accounting for property in connection with implementation of title IV of the National Security Act, as amended.

Recommendation No. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Department of Defense position.—Concur.

Comments.—This recommendation requires congressional authority to implement. It would greatly facilitate and simplify integrated accounting for

obligations, accrued expenditures, and disbursements under annual appropriations. The recommendation is not clearly stated and may be misunderstood. However, the discussion in the report seems to be clear enough as to the objective and general method of accomplishment. Nevertheless, it might have been desirable to clearly indicate, as one of the features of the proposal, that provision should be made for "lapsing" the unobligated balances of annual appropriations and also such portion of unliquidated obligations (subject to necessary adjustment) carried forward at the beginning of each fiscal year as may be determined subsequently to be in excess of the actual amounts to be payable.

Implementation.—The Department of Defense will support the necessary legislation and make the necessary study of its detailed application.

Recommendation No. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies.

Department of Defense position.—Concur.

Comments.—The Department of Defense hopes that authority will be granted to implement this recommendation.

Implementation.—Department of Defense will support the necessary legislation and any appropriate implementing action of the General Accounting Office.

Recommendation No. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

Department of Defense position.—Concur in principle but do not believe the recommendation goes far enough.

Comments.—This recommendation has been partially implemented through adoption of Public Law 365, 84th Congress, approved August 11, 1955. It is believed, however, that the permissive authority for clearance should have been carried further. The Department of Defense sees no reason to continue with a procedure which requires relief of disbursing officers when they have not been found guilty of fraud or gross negligence. Instead, each department or agency head should have the duty of making positive findings of fraud or gross negligence and taking such steps as may be normal to institute criminal action as well as to recover losses. The Comptroller General would always have the privilege of commencing appropriate action if he disagreed with agency findings or found the agency delinquent in taking necessary action.

Implementation.—The Department of Defense will support the necessary legislation, preferably for authorizing the procedure outlined in the comments above.

Recommendation No. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate: (a) Duplicate accounts within the Treasury Department; and (b) duplicate accounting as between the Treasury Department and the various departments and agencies.

Department of Defense position.—Concur.

Comments.—Simplification of procedures, through elimination of duplicate records, without loss of control is believed to be feasible.

Implementation.—None required in Department of Defense. However, if requested, the Department of Defense will cooperate in the study.

Recommendation No. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they may meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Department of Defense position.—The Department of Defense concurs on the basis of the present departmental assignment of functions, but see comment on Recommendation No. 22.

Recommendation No. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

Department of Defense position.—Concur but do not believe the recommendation should exclude fiscal reports.

Comments.—While the Dpartment of Defense concurs, it is believed that the recommendation should be more specific and comprehensive—that is, the function of all central reporting (including fiscal reporting) for the Federal Government, as a whole, should be transferred from the Department of the Treasury to the Bureau of the Budget. Such action would be required in order to implement Recommendations Nos. 2 and 10. Such a step would eliminate duplicate reporting channels and central agency reporting responsibilities; it would thus concentrate overall central reporting responsibilities for the Federal Government.

Implementation.—If requested, the Department of Defense will support necessary legislation. It will also undertake to implement any action that may be undertaken for the Government as a whole under the direction of the Bureau of the Budget.

Recommendation No. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

Comments.—The Department of Defense concurs in the need for selecting individuals for comptrollership positions who have broad management and accounting experience and competence. The problem as to whether these positions should be staffed exclusively with civilian personnel is being studied in connection with Recommendations 13 and 14 of the Hoover Commission Report on Business Organization of the Department of Defense and will be commented upon in connection with that report.

Recommendation No. 24

That the comptrollers in the military departments be responsible only to the secretary of their respective services, and that concurrent responsibility to a chief of staff or equivalent be discontinued.

Department of Defense position.—The substance of this recommendation is included in Recommendation No. 19 of the Report on Business Organization of the Department of Defense, and comments thereon will be included in the statement to be submitted concerning that report.

Recommendation No. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

Department of Defense positions.—No objection. However, see comment below.

Comments.—The Department of Defense has no objection to such a study, if it is desired. However, such a study within the Department of Defense has been made, and it discloses the need and direction for further development and improvement of internal auditing. Vigorous steps have been taken, in different degree in each mililtary department, to institute internal audit programs—a relatively new activity. Any special external study would not be productive, it is believed.

Implementation.—Will cooperate in such a study if one is undertaken.

EXHIBIT E

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 7, 1955.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. CHAIRMAN: Your letter of February 21, 1956, acknowledged February 23, requests our views and recommendations on H. R. 9402, 84th Congress, which would carry out various recommendations in the Report of the Hoover Commission on Budget and Accounting.

Section 1 (a).—This section, which relates to additional comprehensive reports other than purely fiscal reports to be prepared by the Director, Bureau of the Budget, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involves management decisions affecting the Bureau. While these are matters that can best be determined by the Bureau

and the Congress, we believe that this information should be obtained through the regular budgetary processes and included in the President's annual budget.

Sec. 1 (b).—This section would amend section 216 of the Budget and Accounting Act, 1921. If cost-based budgets were used for management purposes in making fund allocations within the departments and establishments as proposed by section 216 (a), the information submitted by the departments and establishments to the Bureau of the Budget for budgetary purposes would be substantially more meaningful. This would permit periodic reports on accomplishments or performance to be related to budgets in terms of costs, the advantages of which are discussed more fully in our comments on the proposed amendment to section 216 (c). We endorse this proposal.

As to the proposed section 216 (b), we believe the President should be kept informed in a timely manner of significant factors relating to the operating agencies of the executive branch. The annual consideration of the budget of each agency serves as the basis for a review of operations. While the type of annual report intended under the proposed section 216 (b) is not entirely clear, the desirability of a separate report for the executive branch as a whole seems questionable. We are inclined to think that the total Government area is so broad that information and evaluation is ordinarily most meaningful at the major program or bureau level. We believe that this information should be obtained by the Bureau of the Budget to the extent deemed necessary through the regular budgetary processes and could be submitted in support of the annual budget without the enactment of specific legislation.

The proposed sections 216 (c) and (d), if effectively carried out, would offer a great opportunity for improvement in the financial management of executive agencies. The background discussion and explanation for Recommendation No. 6 in the reports of the Hoover Commission and its task force on budget and accounting explains the need for this amendment and need not be repeated here. Briefly, the more important advantages are:

1. Cost data (based on man days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.
2. A proposed work plan (budget) stated in terms of costs (total resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.
3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.
4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influence.

The primary advantage of budgeting on a cost basis to both maangement and the Congress is that total resources to be used (on hand, on order and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures and costs in those many operations primarily concerned with personal services. On the other hand, dollar-wise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets. Major procurement, construction and research and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

It should be noted that agency budgets can be formulated and administered on a cost basis under present practices of stating appropriation authorizations on an obligation basis and this is currently being done in some cases. The cost presentation is confined to the justification material in the greater number of such instances. However, the impetus to furnish cost data to the Congress would be greatly enhanced by teaming up the cost based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in Recommendation No. 7 of the Hoover Commission Report on Budget and Accounting. This would provide the best opportunity for improved correlation of programing, budgeting and accounting. We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis for the reasons stated below.

Accrued expenditure appropriations.—Congressional control of costs and expenditures can only be achieved by the maximum utilization of many tools. Budgeting on a cost basis and placing the executive budget and congressional appropriations on the basis of anuual accrued expenditures can be made important tools for the Congress if effectively installed.

The basic need of the Congress is adequate factual data as a basis for decision making. The facts furnished to the Congress can be no better than those available to the management for its own purposes, that is, the needs of the two for financial and operating data, although differing as to extent of detail, are entirely compatible. It seems reasonable to conclude that the best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and (3) costs for both in terms of total resources consumed. With this point of departure the budget can then be assessed in term of (*a*) costs to be iucurred, (*b*) resources already available in terms of inventories, etc., plus carried-over funds, and (*c*) new money or authority needed. The essential difference in this approach, which ties in with the recommendations for cost budgets and accrued expenditure appropriations, as contrasted with present practices based on appropriations stated in terms of obligation authority is the degree of emphasis which the latter places on new money rather than total resources to be cousumed and the extent of resources already available.

In the operations concerued primarily with salaries and travel expense the time relationship between the creation of an obligation and an expenditure is relatively short. In such circumstances, resources available other than new money are ordinarily of no great significance and there is ordinarily a rather direct correlation between obligations, expenditures, and costs. These are the operations which represent the larger group in terms of numbers but represent the less significant portion of the budget from a dollar standpoint. In the area of operations where long lead-time is characteristic such as, major procurement, construction, and research and development, which represent the greater dollar portion of the budget, obligation and expenditure data have their greatest limitations for both Congress and management.

The advantages of placing appropriations on an accrued expenditure basis are both tangible and intangible. The annual budget surplus or a deficit is determined on the basis of expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress a much greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carryover balances now available for the expenditure at the discretion of the executive agencies. The present situation concerning available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

On the intangible side, it has often been pointed out that there is. perhaps, an unavoidable implication that funds which have not beeu obligated are either not needed or are available in lieu of new money. This, of course, is a fallacious assumption wheu total authority is granted in a lump sum initially for activities involving long lead time such as ship construction. Nevertheless, atteution may well be diverted from the question of accomplishments at minimum cost over the period of the program to the one of almost sole emphasis on the amount of new money being requested. In the past, it has sometimes been said that expenditures are the inevitable result of granting obligation authority with the attendant implication that once having granted obligation authority all opportunity for subsequent adjustment is lost. An examination of present-day practices in the long lead time area (procurement, construction, and research and development) demonstrates the obvious fallacy of this reasoning as evidenced by the extensive reprograming, multitudinous changes in engineering plans and specifications during the period of production of many items and other similar factors. Because of these inherent factors in the operations involved, cost budgets, teamed with appropriations on an accrued expenditure basis, would require a type of continuing budget presentation that would bring out the adequacy of management planniug or the lack of it and give the Congress an opportunity to have a voice in setting the level of operations from year to year.

It is inherent in the recommendations under discussion that congressional authority be granted for the advance planning which necessarily precedes the phase of operations covered in an annual accrued expenditure budget. In the past, this authority has been termed contract authorizations but it is a significant fact that heretofore both contract authorizations and subsequent appro-

priations were stated in terms of obligational authority whereas under the recommendations herein being considered only the initial authorization would be stated in terms of the broad and difficult to apply concept of obligations whereas annual authority could be stated much more definitely in terms of accrued expenditures because of the time factor. It is essential that the initial authority which may cover a forward period, sometimes as great as 5 years or more, be in the most flexible terms, and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and authorizations are practical when stated in terms of accrued expenditures. Thus, the current recommendations are not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

Section 1 (c).—The proposed section 218 of the Budget and Accounting Act, 1921, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involve management decisions affecting that Bureau. We believe these are matters which can best be determined by the Bureau and the Congress and, accordingly, we offer no specific views in the matter.

Section 2 (a).—Our comments above on the proposed sections 216 (c) and (d) are equally applicable to this section 2 (a). We, therefore, endorse the objective to obtain consistency in organizational structure, budget classifications, and accounting systems within each executive agency.

Section 2 (b).—We endorse this amendment to section 113 of the Budget and Accounting Procedures Act of 1950. The maintenance of accounts on an accrual basis is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill. Experience under the joint accounting improvement program clearly indicates that the accrual basis, when applied to significant items, is a major factor in providing better control over resources and liabilities and is an essential element in obtaining adequate cost data. Our statement of accounting principles provides for the appropriate use of the accrual basis. We also believe that adequate monetary property accounting records, as an integral part of accounting systems, are essential to several other proposed amendments such as accrual accounting, cost budgeting, etc., as well as the specific advantages to management which will result from adequate financial accounting for property.

Section 2 (c).—The proposed section 120 of the Budget and Accounting Procedures Act of 1950 would establish a "Staff Office of Accounting" in the Bureau of the Budget. The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. The Budget and Accounting Procedures Act of 1950 recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General for making continuing improvements in the financial management of Federal Government activities.

In its accounting and reporting provisions the statute clearly places responsibility upon the Comptroller General for principles, standards, and related requirements; directs the General Accounting Office to cooperate with the executive agencies in the development of their accounting systems and to approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards and related requirements prescribed by him; and places upon the General Accounting Office the responsibility for the review of accounting systems of the executive agencies. As recognized in the report of the Hoover Commission on Budget and Accounting, the Comptroller General has equipped himself to carry out these responsibilities through the exercise of his accounting system function. Particular stress in the report is laid upon the excellent cooperation developed between the General Accounting Office and the executive agencies. No diminution or change in this cooperative working relationship between the General Accounting Office and the executive agencies is contemplated, nor do we presume that any change is intended or implied by the recommendations under discussion.

Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950 of establishing and maintaining adequate systems of accounting and

internal control in conformity with the principles, standards and related requirements prescribed by the Comptroller General as referred to therein. It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accountiug is an integral part of total management responsibility and any effort to obtain improvements must have the full support of agency management to be successful. Added emphasis on getting the job done governmentwide could be very helpful in expediting progress if appropriately carried out. We do not believe, however, that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of assistant director for accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

Such an effort need in no way be exercised in a manner inconsistent with the join accounting improvement program carried on jointly by the Secretary of the Treasury, the Director of the Bureau of the Budget and the Comptroller General of the United States for the last several years. The essence of this arrangement is the recognition of the fact that each of the central agencies concerned, along with individual executive agencies, has a part to play in the total operation and that the desired results can only be achieved through joint efforts carried out with mutual respect for the responsibilities of each.

The new section 121 of the Budget and Accounting Procedures Act of 1950, also proposed by sectiou 2 (c) of the bill, would provide for the appointment of a comptroller in each executive agency. We endorse the emphasis placed on the financial management function iu each executive agency which is the apparent objective of the proposed section 121. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies. In the final analysis, the responsibility for financial management must necessarily rest upon the head of each executive agency as a part of his total management responsibility. This has been made abundantly clear as a matter of statute in section 113 (a) of the Budget and Accounting Procedures Act of 1950, previously referred to above.

Section 3.—The simplification of the allotment system for allocating funds is sound and most desirable. The existing unwarranted subdivisiou of funds is one of the greatest deterrents to improved financial management. We believe that administrators may be willing to forego the type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control. Better programing tied in with improved accouuting through the development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Section 4.—This section would require each executive agency to maintain a single account under each appropriation title or fund. We endorse the objective of this proposal but feel that it should be adopted for only appropriations or funds which are stated on an accrued expeuditure basis. The Committee on Government Operations is presently considering proposed legislation (H. R. 9593) which would permit the consolidation of all prior year obligations under each annual appropriation into one account thereby requiring only two accouuts—one current account and one for prior year obligations—under each annual appropriation title. We strongly favor the use of two accounts where such accounts are not stated on an accrued expenditure basis.

Section 5.—This section would provide for a joint study by the Bureau of the Budget and the General Accounting Office relating to accounting and internal auditing. Much has been accomplished in these areas in the past by the General Accounting Office both on its own and under the joint accounting improvement program with the Bureau of the Budget and the Secretary of the Treasury. This work is carried on as a regular part of our comprehensive audit program and in the discharge of our accounting systems responsibilities. We expect to continue these studies and investigations. The results of these efforts are made available to the Congress through our regular reporting processes, but we would be pleased to cooperate with the Congress in any special effort having as its objective the improvement of accounting and internal auditing.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

EXHIBIT F

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., March 23, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: This will acknowledge your letter of February 21, 1956, inviting the Bureau of the Budget to comment on H. R. 9402, a bill "To improve governmental budgeting and accounting methods and procedures, and for other purposes."

This bill is based upon the budget and accounting report of the Commission on Organization of the Executive Branch of the Government. The Bureau of the Budget has the following comments to offer on the various provisions of H. R. 9402.

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

Section 1 (a).—This subsection adds additional language to section 213 of the Budget and Accounting Act of 1921. It is designed to implement Recommendation No. 22 of the Hoover Commission budget and accounting report. In making this recommendation, the Hoover Commission suggested amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports of the financial results of activities for the Government as a whole and for each of its major component activities. Since this subsection amends the Budget and Accounting Act of 1921 and specifies the preparation of comprehensive reports showing financial results for activities of the departments and establishments, it is more limited in coverage than the Hoover Commission recommendation. Under the definitions of the 1921 act, the terms "department and establishments" exclude the legislative branch and the Supreme Court.

It should be noted that this recommendation is also the subject of separate pending legislation: H. R. 8236 and S. 3323, bills "to provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof." Both of these latter bills amend the Budget and Accounting Procedures Act of 1950 and, as indicated by their titles, their coverage is broader.

The existing provisions of the Budget and Accounting Procedures Act of 1950 require that the Secretary of the Treasury prepare reports that will "present the results of the financial operations of the Government" and this bill does not amend that requirement. This provision would, therefore, hold a potential for duplication of effort in the central agencies as well as undesirable effects in the operating agencies required to produce the necessary information.

The development of an integrated system of financial reporting by the Federal Government that would avoid duplication of effort in the operating and central agencies is one of the major objectives of the joint accounting program. Progress has been and is being made in that direction, based on the cooperative efforts of the General Accounting Office, the Bureau of the Budget, the Treasury Department, and the operating agencies. Illustrative are recent improvements in the central reports issued by the Treasury Department. Work is currently underway on the development by the operating agencies of the kinds of financial information which will be needed to provide the basis of improved central reports of the types recommended by the Hoover Commission. The Bureau of the Budget fully supports the objectives of the Commission in this respect. As the Commission task force noted, however, this objective cannot be completely attained until the accounting systems throughout the executive branch have been developed sufficiently to produce the necessary data.

In view of these facts we believe that legislation on this subject at this time would be premature. We recommend, therefore, that section 1 (a) be deleted from H. R. 9402.

Section 1 (b).—This subsection would amend section 216 of the Budget and Accounting Act of 1921 and would have the effect of writing into law four of the Hoover Commission recommendations. As amended, subsection (a) of section 216 would require the use of cost based operating budgets by all departments and establishments as proposed in Recommendation No. 3 of the Hoover Commission. Subsection (b) would require internal quarterly performance reports to the heads of departments and establishments; annual agency reports on the conduct of operations to the Bureau of the Budget; and an annual report from

the Bureau of the Budget to the President on the performance of all departments and establishments. This would enact Recommendation No. 2 and the remainder of Recommendation No. 3 of the Hoover Commission. Subsection (c) would direct the preparation of appropriation requests on a cost basis, consistent with the suggestions contained in Hoover Commission Recommendation No. 6. Subsection (d) would require the submission of data on program costs and accomplishments and provide for review of organizational performance, thus covering that portion of the Commission's Recommendation No. 4 that is not already specified in the Budget and Accounting Act, as amended.

The Bureau of the Budget is in agreement with the objectives of each of the Hoover Commission recommendations involved in section 1 (b) of H. R. 9402. Each of these proposals can, however, be implemented without specific legislation of the type proposed.

With regard to the proposed section 216 (b), for example, the entire reporting process has been given continuous attention by the Bureau of the Budget as part of its management functions and responsibilities. The Bureau has encouraged agency action in the development and internal use of suitable performance information for management and budgetary purposes. The complexity of agency operations and the variety of purposes to be served makes it undesirable, however, to fix the timing of internal reports in the manner proposed in this legislation. With respect to external reporting, the agencies regularly submit reports on the conduct of operations to the Bureau of the Budget as part of the budget process; and the Bureau submits pertinent information of this type to the President informally throughout the year and more formally during the period of annual budget formulation.

The matter of improving performance reports is not so much one of prescribing requirements as it is one of applying sufficient staff to the work to bring about more rapid accomplishment of the desired improvements. Work needs to be concentrated on determining the requirements to be met in relation to the information available at each level of operation, and on developing the necessary data in a form calculated to be most helpful to those who will use it. The President and other officials of the executive branch all now have adequate authority to obtain the reports and information which they require. In order to permit the development of reporting practices most suitable to the purposes to be served at each management level, the Bureau of the Budget would therefore recommend against enactment of the proposed section 216 (b).

The other proposed subsections—216 (a), (c), and (d)—specify the use of costs for management and budgetary purposes. Costs are recognized as an important element in management and budgeting in the executive branch and this Bureau in recent years has been encouraging the introduction of such data into the budget process. We understand by these subsections that reference is made to the type of cost-based budgets we have been introducing—showing costs reconciled to obligations. The use of cost information as proposed, however, is dependent upon the ability of agency accounting systems to produce such data. While the joint accounting program has made considerable progress in advancing the cost concept throughout the Government, the installation in the agencies of accounting systems that develop such data will take a long time. This is recognized in section 2 (b) of this bill which requires such installations "as soon as practicable." We believe that a similar provision should be included in subsections 216 (a), (c), and (d). In addition, we suggest the deletion of the last part of subsection (d) which requires a review of performance by organizational units whenever such units do not coincide with performance budget classifications. This provision would add much detail inappropriate for inclusion in the budget document itself. Such material can be furnished the Congress as part of the budget justifications. With these changes the Bureau of the Budget has no objection to the enactment of subsections 216 (a), (c), and (d).

Section 1 (c).—This subsection of H. R. 9402 adds a new section to title II of the Budget and Accounting Act of 1921. The language is directed toward partial implementation of the first recommendation in the Hoover Commission budget and accounting report—more particularly that part concerned with staff assignments in the Bureau of the Budget. It directs the placement of Bureau employees in the principal departments and establishments on a rotating basis, specifies that not more than two persons shall be placed in each principal subdivision of such units, and indicates that such persons shall possess the combined skills of a statistician, cost accountant, administrative expert, and program analyst.

This subsection of the bill involves the all-important area of Bureau-agency relationships. For best results, the Bureau has found that relationships with the agencies must be based on cooperation and mutual understanding of the basic factors underlying the submission and presentation of agency budgets. Limited attempts toward the type of arrangement proposed have met with little success in the past. The enactment of legislation on this point would, we believe, have an undesirable effect on the cooperative effort required between this Bureau and the agencies in developing the executive budget. In addition, it would be difficult for the Bureau to meet the specifics of this section in terms of staffing and rotation of assignments and it would be virtually impossible to find persons with the stated qualifications. The Bureau therefore recommends against enactment of section 1 (c). It is proposed to adopt a substantial part of Recommendation No. 1 by administrative action.

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

Sec. 2 (a).—This subsection covers Hoover Commission Recommendation No. 5, which suggests further synchronization of agency organization, budget, and accounting classifications. This is a desirable objective, one that meets with full agreement throughout the executive branch when the principle is applied on a practical basis. Since adoption of the performance budget concept, the Bureau of the Budget and joint accounting program staff have continuously emphasized this need. Considerable progress has been made and the agencies are directing efforts toward the resoluton of existing problems in this area under instructions issued by the Bureau of the Budget.

Experience has shown that this principle must be applied on an individual agency basis—striving for consistency to the extent feasible while recognizing the need for adequate budget presentation of the programs conducted by the agency. In view of the progress made to date, the governmentwide acceptance of this objective, and the continuous attention being given this subject in the budget process, the legislation proposed would be unnecessary. Accordingly, the Bureau of the Budget recommends that section 2 (a) not be enacted.

Sec. 2 (b).—This provision has the effect of requiring each agency to maintain an accrual accounting system, including appropriate monetary property accounts. The purpose of this requirement is to provide cost information to serve the management and budgetary needs of the agency and the Government. The section is based upon two of the Hoover Commission recommendations in the accounting area—Nos. 14 and 16.

The maintenance of accounts on the accrual basis is generally recognized as the most suitable method of obtaining information that provides for full disclosure of agency operations and financing. The installation of such systems has been one of the major objectives of the joint accounting program. By reason of the nature of the work involved, however, this is a long-range job—which is recognized in the language of this subsection. In view of the relationship of this proposal to the legislation for cost-based budgeting contained in section 1 (b) of this bill, the Bureau of the Budget similarly has no objection to the enactment of section 2 (b).

Sec. 2 (c).—This portion of the proposed bill would add two additional sections to the Budget and Accounting Procedures Act of 1950. These two new sections would establish a staff office of accounting in the Bureau of the Budget, headed by an assistant director for accounting, who would be appointed by the President and assigned specific duties; and would authorize and direct the head of each executive agency to provide for the appointment of a comptroller who would similarly be assigned specific duties. This reflects Hoover Commission Recommendation Nos. 10 and 11, which are also the subject of separate pending legislation: H. R. 7209, H. R. 7338, S. 2369, and S. 2480, bills "To provide for improving accounting in the executive branch of the Government, and for other purposes."

The substance of Recommendation Nos. 10 and 11 is very fundamental to the general purpose of the report on budget and accounting. Assistant Director Rappaport has recently been designated as responsible for expanding the accounting group of the Bureau of the Budget and implementing these recommendations.

It is our understanding that the purpose of the Hoover Commission recommendations on this subject was to propose these organizational arrangements for consideration of the heads of the affected agencies, rather than to suggest the passage of legislation on the matter. This subsection, however, would prescribe by law the internal organization and functions for financial manage-

ment in the executive agencies. This runs counter to the principle of organizational flexibility reflected in the recommendations of the first Hoover Commission, which were strongly endorsed by the Congress in subsequent legislative enactments. In order to provide for the most practicable and efficient operation in each agency, the responsible head of the organization should be permitted flexibility in the assignment of functions and duties, rather than to have a rigid organization pattern imposed by law on his fiscal organization.

Moreover, the provision for Presidential appointment of an assistant director for accounting in the Bureau of the Budget, as prescribed in this legislation, is inconsistent with the present method of appointing assistant directors. Appointments are now made by the director of the Bureau of the Budget and we consider that to be the appropriate method.

The Bureau of the Budget feels that this legislation is undesirable and therefore proposes deletion of section 2 (c) of H. R. 9402.

ADDITIONAL PROVISIONS

The remaining three sections of this bill establish new basic legislation in the area of budgeting and accounting in the Federal Government.

Section 3.—This section establishes the intent of Congress that the Government's allotment system should be simplified, with the objective of establishing a single allotment for each operating unit in an agency. This would directly implement Hoover Commission Recommendation No. 13, which has met with complete agreement in the executive branch.

A single allotment for each operating unit is desirable from the management standpoint an is urged where practicable to provide maximum flexibility in the conduct of operations. Effective progress has been made, particularly in the installation of accrual accounting systems. In such installations, allotments are generally established for fund control at the highest practical level, with subordinate cost accounts utilized for operational control purposes.

While this work has proceeded and could continue on the basis of administrative direction, the Bureau of the Budget would have no objection to enactment of this section of the bill in view of its relationship to the provision for adoption of accrual accounting.

Section 4.—This part of this proposed legislation prescribes the use of a single account for liquidation of valid obligations under each appropriation or fund in the respective executive agencies. This represents a direct legislative statement of Hoover Commission Recommendation No. 17, which is directed toward simplification of existing accounting requirements.

Legislation is necessary to enable implementation of this Hoover Commission proposal, and a bill suitable for this purpose has been developed under the joint accounting program. This proposal has been introduced as separate legislation, designated as H. R. 9593 and S. 3362. This separate legislation not only would provide for a desirable simplification in the maintenance of appropriation accounts but would also carry out Hoover Commission Recommendation No. 18—which is not covered by H. R. 9402. This latter recommendation suggests the settlement of valid claims within the agencies rather than by the General Accounting Office.

The proposed bills mentioned immediately above differ from the provisions of section 4 of H. R. 9402 in that all prior year accounts under a single appropriation would be merged into one account but would be kept separate from the current appropriation. This relatively minor deviation from the Hoover Commission proposal is considered desirable to avoid the possibility of augmentation of current year funds by excess obligating authority accruing from prior year appropriations.

In view of these considerations, the Bureau of the Budget recommends the deletion of section 4 from H. R. 9402, but suggests favorable consideration of the separate legislation identified above in order to attain the accounting simplifications desired.

Section 5.—The last section of this bill would require the Comptroller General and the Director of the Bureau of the Budget to make joint studies of steps to eliminate duplicate accounting within the Treasury Department and between that Department and other agencies, and of internal auditing in executive agencies; and to report to the Congress on their findings within 2 years of enactment of the legislation. This is directed toward accomplishment of Hoover Commission Recommendation Nos. 20 and 25.

As previously pointed out, the improvement of central accounting and reporting has been a major activity under the joint accounting program since its inception.

Work is currently underway on installation of a system designed to eliminate duplicate accounts within the Treasury Department. As for the elimination of duplicate accounts between Treasury and the agencies, this is a matter of current concern to a joint working group established for the simplification of the central accounting and reporting processes. This group has as a primary objective the elimination of such duplicate accounts as soon as such action is feasible. A joint study like that proposed, therefore, seems to us to be unnecessary.

The subject of internal auditing has also been given continuous attention under the joint accounting program. It has been recognized as a basic element in the internal control systems required in the agencies by the Budget and Accounting Procedures Act of 1950. In this framework, the internal audit practices of the agencies are under continuous study by General Accounting Office staff in the conduct of their comprehensive audit program. Their findings and recommendations on this subject are included in the audit reports prepared for submission to the Congress. Nevertheless, as a result of the Hoover Commission proposal, a special study such as that proposed here will be considered by the central agencies conducting the joint accounting program.

In view of the circumstances and the fact that these are one-time investigations, legislative provision for the conduct of these studies is unnecessary. The Bureau of the Budget, therefore, recommends against enactment of section 5 of the bill.

SUMMARY

After thorough consideration of the proposed H. R. 9402, the Bureau of the Budget is of the opinion that while the basic objective of this bill is meritorious and highly desirable, most of the proposed actions can be accomplished more readily and appropriately by administrative action. However, as indicated above, the Bureau of the Budget would have no objection to the enactment of those sections of the bill that provide for the use of accrual accounting and cost-based budgeting. Such legislative provisions would firmly establish these principles for use in governmental budgeting and accounting, which would in turn support current efforts under the joint accounting program, and provide a stimulus for further implementation of other Hoover Commission proposals relating to budgeting and accounting.

Sincerely yours,

(Signed) ROWLAND HUGHES,
Director.

EXHIBIT G

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR CONGRESSMAN DAWSON: This is in reply to your request of February 21, 1956, for a report on H. R. 9402, a bill "To improve governmental budgeting and accounting methods and procedures, and for other purposes."

This Department favors the objectives of this bill, but regards some of the proposed specific statutory changes as unnecessary. Significant progress toward the orderly development and improvement of Federal budget and accounting practices is being made under present laws.

The bill provides for the amendment of the Budgeting and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950 in accordance with certain recommendations contained in the Budget and Accounting Report of the 1955 Commission on Organization of the Executive Branch of the Government. The Department of Agriculture offers the following comments on the specific provisions of H. R. 9402.

Section 1 (a).—This section amends section 213 of the Budget and Accounting Act of 1921 to make the Bureau of the Budget responsible for developing comprehensive reports showing the financial results of the activities of the departments and establishments. It is substantially the same as Hoover Commission Budget and Accounting Recommendation No. 22, except that it excludes the legislative branch and the Supreme Court.

The Department in general has no objections to this provision. It is our opinion that, under present accounting systems, the financial information apparently contemplated in the bill can be furnished without undue difficulty. We assume that the Director of the Bureau of the Budget, in prescribing regulations for the preparation of the reports, would take into consideration the kinds of

accounting and program data available and appropriate to the types of operations conducted. Furthermore, much of the financial information of the type referred to in the bill now appears in the annual budget, and any reporting regulations which may be issued upon enactment of this bill should be drawn so as to avoid duplication of this reported information.

In view of the existing responsibilities of the Treasury Department in the area of central financial reports, it is believed the bill should more clearly distinguish between the responsibilities of the Treasury and the Budget Bureau in order to avoid all possible confusion or duplication, particularly in their relationships with individual agencies. Section 114 of the Budget and Accounting Procedures Act of 1950 placed in the Treasury Department the primary responsibility for overall financial reporting on the Government's activities. The language proposed in section 1 (a) of the subject bill could serve to generate an overlapping of functions and a duplication in reporting requirements.

Sections 1 (b) and 2 (b), in part.—Section 1 (b) provides, in part, for the amendment of section 216 of the Budget and Accounting Act of 1921 to require the use of cost-based operating budgets by all departments and establishments (sec. 216 (a)) and to require the preparation of appropriation requests on a cost basis (sec. 216 (c)). Section 2 (b) provides, in part, for the amendment of section 113 of the Budget and Accounting Procedures Act of 1950, to require that each agency maintain its accounts on an accrual basis. These changes were proposed in Recommendations Nos. 3, 6, and 14 of the Hoover Commission Report on Budget and Accounting.

The Department is opposed to the blanket application of these requirements to all agencies in all instances. The Department has favored the development and application of cost budgeting and accrual accounting in program areas where these concepts can be used in a meaningful and beneficial manner. We are not convinced, however, that these principles could or should be extended to all activities.

In this Department, the cost and accrual concepts are genuinely applicable only in rare instances, principally businesstype activities, where these concepts are now being used to the extent possible. However, in the great majority of our activities, the cost of providing public services is virtually synonymous with the obligations for such services and there would be scant justification for incurring the expenses of converting to the cost basis for budget presentation, and the accrued expenditure basis for accounting, where the differences from obligations would be so slight—particularly since it will be necessary, in any event, to continue to maintain controls and accounts on an obligation basis.

In any evaluation of the merits of budgeting for accrued expenditures, compared with budgeting for obligations, the real issue to be considered is whether the one offers a superior method of Congressional or administrative control. Payments are made, and accrued expenditures are incurred, as a consequence of obligations made by Government agencies. It is the authority to make firm obligations against the Government which gives rise to the expenditure of Government funds and controls the level of such expenditures. Traditionally, the authority to obligate has served as the control on the part of the Congress. If Congress is to control Federal expenditures effectively, it must continue to provide and control obligating authority, through the use of contract authorizations or some similar means.

As the initial step in the expenditure process, obligations incurred commends itself as an effective control point. Both Congress and the administrators of programs can control obligations. Goods and services received in a given fiscal year cannot be as effectively controlled by those charged with the responsibility for a program. The goods and services actually received might depend on numerous factors which cannot be estimated or controlled.

The orderly prosecution of an authorized program could well be hampered by a limitation on the amount of goods and services which could be received in pursuance of obligations properly incurred.

In summary, the Department believes that if cost-based budgeting and accrued-expenditure accounting are to be written into law, it would be most desirable to do so on a permissive basis. This could stimulate the use of these techniques in areas where they have positive value, such as businesstype activities and long lead-time construction programs, while avoiding the problems involved in applying them in areas where they would not be genuinely beneficial.

Section 1 (b).—The remainder of this section would further amend section 216 of the Budget and Accounting Act of 1921 to require internal quarterly performance reports to the heads of departments and establishments, annual agency reports on the conduct of operations to the Bureau of the Budget, and an annual

report from the Bureau of the Budget to the President on the performance of all departments and establishments (sec. 216 (b)). It would also require that the budget contain data on program costs and accomplishments and a review of performance by organizational units, when these do not coincide with performance budget classifications (sec. 216 (d)). These provisions were contained in Recommendations Nos. 2, 3, and 4 of the Hoover Commission's Budget and Accounting Report.

The Department favors the objective implicit in section 216 (b), but feels that it can be accomplished within existing laws. We strongly believe that overelaborate reports should be avoided. To be most useful, reports should be concise and be directed toward showing the existence of effective management improvement plans and performance. Reporting requirements should be kept flexible and unnecessary duplication with reports required by other central staff agencies should be avoided.

The Department favors the objectives contemplated in section 216 (d), but feels that they can be achieved under present legislation.

Section 1 (c).—This portion of the bill adds a new section to title II of the Budget and Accounting Act of 1921. It calls for the placement of Bureau of the Budget employees in the major departments and establishments on a 2-year rotating basis and is directed toward partial implementation of the first Hoover Commission recommendation on budget and accounting.

This section of the bill involves the important area of Bureau of the Budget-agency relationships in the preparation of the budget estimates. The determination of budget estimates is one of the primary responsibilities of a department head. This responsibility might possibly be impaired by the presence in the process of that determination, of a representative of the agency which will later review these estimates.

The Department has found the existing cooperative relationships with the Bureau of the Budget highly satisfactory. It is advantageous to be able to consult directly with Bureau personnel on presidential policy with respect to budget and other matters. This service might be impaired, to the extent that the Bureau representatives assigned to agencies could lose touch with current Bureau procedures and policy. The enactment of legislation in this area would have an undesirable effect on the existing cooperative relationships and introduce difficulties into a system that is now functioning smoothly.

Section 2 (a).—This amendment to section 104 of the Budget and Accounting Procedures Act of 1950 requires the departments to work toward maximum possible consistency in organizational structure, budget classifications, and accounting systems. It covers Hoover Commission Budget and Accounting Recommendation No. 5.

The Department favors the objectives of this section, but feels that they are being achieved under existing laws. Significant progress is being made, along established lines, to achieve the consistency contemplated in the bill, to the extent that it is feasible. It should be recognized that complete consistency cannot be achieved in all cases and that the budget structure, organizational arrangements, and accounting systems for each agency should be designed to meet its particular circumstances. In this Department, with its complex programs and widespread field activities, an attempt at complete consistency would sometimes require unwieldy, complicated, and costly adjustments. It would also deprive administrators of essential flexibility in operating programs.

Section 2 (b).—The remainder of this section provides for the amendment of section 113 of the Budget and Accounting Procedures Act of 1950, to require that agency accounting systems include adequate monetary property accounting records. This provision is contained in Recommendation No. 16 of the Hoover Commission Report on Budget and Accounting.

The Department favors the objectives of this section, but feels that additional legislation is unnecessary. We now require that accounting records be maintained for personal property. Regulations are now being formulated for the installation and maintenance of proper monetary real property records, which will be made an integral part of the agency accounting system when completed.

Section 2 (c).—This portion of the bill would add two new sections to the Budget and Accounting Procedures Act of 1950. The first would provide for a staff office of accounting in the Bureau of the Budget, headed by an assistant director for accounting, who would be appointed by the President (sec. 120). The second would authorize and direct the head of each agency to appoint a comptroller (sec. 121). These changes were suggested in recommendations Nos. 10 and 11 of the Hoover Commission Report on Budget and Accounting.

The Department is in general agreement with the objective of strengthening accounting and budgeting in the Government, but we believe that this can be accomplished without legislation specifically requiring the appointment of an assistant director of the Bureau of the Budget for accounting and the establishment of a "comptroller" in each agency.

The first of these provisions would place in the Bureau of the Budget a staff comparable to the Accounting Systems Division of the General Accounting Office. The Department strongly believes that accounting leadership should be fixed in one central agency and not divided between two such agencies. We endorse and actively participate in the joint program to improve accounting in the Federal Government, sponsored by the Bureau of the Budget, General Accounting Office, and the Treasury Department. At present, the accounting systems division of GAO is actively assisting agencies in accounting systems work and the significant progress that has been made in such work is largely attributable to the effectiveness of that group. Since working relationships with this group have been most satisfactory, it is believed that continuation on the present basis is desirable. The division of direction in this field could result in confusion and jurisdictional problems which would impede continued progress.

The Department is in complete agreement with the objectives of the second provision—namely, that the duties and responsibilities specifically enumerated in this section of the bill should be assigned to a single individual who occupies an organizational position that will insure that they receive prompt attention. We believe that the Department is now achieving the objectives of this provision. The director of finance and budget officer in the Department is responsible for all matters relating to the administration of the Department's financial affairs. We do not believe that it is necessary to identify the position as "comptroller," in order to accomplish the desired results.

Section 3.—This section would establish new basic legislation in the area of budgeting and accounting. It establishes the intent of Congress that the Government's allotment system should be simplified, with the objective of establishing a single allotment for each operating unit in an agency. It would implement Hoover Commission recommendation No. 13 on budget and accounting.

The Department favors the objective of this provision, but feels that it can be accomplished under existing legislation. It is the continuing policy of the Department to simplify the allotment pattern to the maximum practical extent.

Section 4.—This portion of the bill would provide new legislation prescribing the use of a single account for the liquidation of valid obligations under each appropriation or fund in the respective executive agencies. It expresses directly Hoover Commission recommendation No. 17 on budget and accounting.

The Department is in favor of the objectives of this provision, which has also been included in separate legislation, designated as H. R. 9593 and S. 3362. This separate legislation would provide for desirable simplification in the maintenance of appropriation accounts and would also carry out Hoover Commission recommendation No. 18 on budget and accounting, which is not covered by H. R. 9402. In addition, H. R. 9593 and S. 3362 include a minor but desirable deviation from the Hoover Commission proposal, by requiring that all prior year accounts under a single appropriation would be merged into one account, but kept separate from the current appropriation.

In the light of these considerations, this Department concurs with the Budget Bureau recommendation to you in its letter of March 20, 1956, that section 4 of H. R. 9402 be deleted in favor of H. R. 9593 and S. 3362.

Section 5.—This final section of the bill also proposes new basic legislation. It would require the Comptroller General and the Director of the Bureau of the Budget to make joint studies of: (a) Steps to eliminate duplicate accounting within the Treasury Department and between that Department and other agencies; and (b) the adequacy of internal auditing in executive departments and agencies. This section would implement recommendation No. 20 and 25 of the Hoover Commission Report on Budget and Accounting.

The Department favors the provision concerning the study of duplicate accounting. However, in view of the continuing studies by the General Accounting Office of the adequacy of agency internal audit programs, the provision concerning this subject seems to be unnecessary.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

TRUE D. MORSE, *Acting Secretary.*

EXHIBIT H

DEPARTMENT OF STATE,
Washington, May 5, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. DAWSON: In accordance with your request of February 21, 1956, which was acknowledged on February 23, the Department of State submits herewith a report and comments on H. R. 9402, "To improve governmental budgeting and accounting methods and procedures, and for other purposes." The bill proposes to amend the Budget and Accounting Act of 1921, as amended, and the Budget and Accounting Procedures Act of 1950 so as to implement certain recommendations of the Commission on Organization of the Executive Branch of the Government contained in its report to the Congress in June 1955 on budget and accounting.

Section 1 (a) of H. R. 9402 would require the Director of the Bureau of the Budget to prepare comprehensive reports showing the financial results of the activities of departments and establishments of the Government. It is noted that section 114 of the Budget and Accounting Act of 1950 provides "The Secretary of the Treasury shall prepare such reports for the information of the President, the Congress and the public as will present the results of the financial operations of the Government" and requires executive agencies to furnish the Secretary of the Treasury such reports and information relating to financial condition and operations as may be required. It appears that this law provides adequate authority and fixes responsibility for the preparation of comprehensive reports with respect to the financial results of Government activities. Further, passage of the proposed bill in incorporating section 1 (a) would appear to create a duplication of responsibility between the Treasury and the Bureau of the Budget for the same function.

Section 1 (b) of the bill would require all agencies to prepare and administer their budgets on a "cost" basis rather than on the basis of obligations incurred. The Department feels that the comments on this subject contained in the June 1955 report of the Commission are most applicable to business-type operations of the Government, and that the related recommendations of the Commission are adaptable less readily to programs of the type found in this Department. In activities of the sort which are characteristic of the Department of State, it is believed care should be exercised to make certain that increased accounting costs are not incurred without a commensurate increase in the effectiveness of the management of the program. The requirements of current Budget-Treasury regulations are such that obligations and accrued expenditures are virtually identical for all objects of expenditure except office supplies, materials, and equipment, which represent a very small percentage of the expenditures made by the Department. The additional cost of pricing and distributing withdrawals from inventory and depreciation on equipment and other property would appear to be excessive in light of the extremely small adjustments they would introduce. In the absence of substantial fluctuations in inventory level of office supplies, and in replacement schedules on equipment, obligation amounts do not differ materially at the appropriation level from accrued expenditures.

In connection with this section of the bill, the Department invites the attention of the committee to the dissents of Commissioners Brown, Farley, and Holifield as set forth in the Commission's report.

Section 1 (b) of H. R. 9402 provides also for a system of performance reporting. The Commission noted in its report that the current problem is not a result of lack of legal authority, which was granted in the Budget and Accounting Procedures Act of 1950, but, rather, technical difficulties in implementing the authority. It is believed, therefore, that further elaboration of the existing law may not be requisite to a solution of the problem. The Department has been working closely with the Bureau of the Budget to improve its own statements of program and performance which appear in the published budget.

Section 1 (c) of the bill would require the Director of the Bureau of the Budget to assign personnel to the principal departments and establishments of the Government for the purpose of maintaining a continuous review of budget preparation and administration, would establish the qualifications of such personnel, and would limit their tours of duty to 2 years. The Department feels that working relationships with the Bureau of the Budget have been satisfactory. In the present circumstances, the Department can benefit from the comments and suggestions of a larger cross-section of the Bureau staff than might be available

under a continuous on-site review by a more limited staff. On several occasions, cooperative arrangements resulted in the Director of the Bureau assigning members of his staff to the Department on a limited basis, and it is believed that the purposes of the on-site review can be served best by such periodic visits. Limiting the assignment of an individual to any department to 2 years would result in a continuing apprenticeship and the loss of valuable training by frequent reassignment to differing programs. It is believed that the present arrangement furthers mutual understanding and appreciation of the complex forces and factors underlying the Department's budget presentations, and provides a means for exchange of views on management problems.

Section 2 (a) of H. R. 9402 would require each executive agency to take action to achieve consistency, insofar as possible, in its organizational structure, budget classifications, and accounting systems. As in the case of section 1 (b), the Department believes that adequate legal authority exists to accomplish this purpose; at present the Department's budget is based on functions, activities, and projects to the extent that it is deemed feasible, considering the nature of the Department's responsibilities and the size and organization of its operations. The relationships between the Department's organization structure and its fiscal system are under continuous review.

Section 2 (b) would require the maintenance of accounts on an accrual basis, and the inclusion of monetary property accounting records as an integral part of the accounting system. The comments on section 1 (b) set forth above apply likewise to the proposal to maintain all Government accounting records on an accrued basis. The Department is of the opinion that monetary property accounting is significant in the operation of an accrual accounting system; however, it is believed that the activities of this Department do not lend themselves readily to accrual accounting on an economical basis. The Department is in favor of property accounting in terms of items and believes that the present records which are maintained in this manner are adequate.

Section 2 (c) of H. R. 9402 proposes to establish in the Bureau of the Budget a staff office of accounting, headed by an assistant director for accounting, who would:

(1) Develop and promulgate an overall plan for accounting and reporting by executive agencies;

(2) Expedite, guide, and assist in the introduction of modern accounting methods;

(3) Set schedules for the performance of the functions of executive agencies;

(4) Stimulate the building of competent accounting and auditing organizations, and assist actively in the selection, training, and retention of capable personnel; and

(5) Report periodically with respect to the status of accounting in each of the executive agencies.

The Department endorses the principle set by the Congress in enacting the Budget and Accounting Procedures Act of 1950, which placed on the head of each agency the responsibility for developing an accounting system respondent to the needs of his agency. This principle is meritorious in that it recognizes that each executive agency is dealing with its own unique functions, and that economical and efficient management requires the tailoring of organization and administration to meet the requirements of each singular situation. The Department feels that the proposed centralization of control of fiscal methods and procedure would impinge upon the responsibilities of the Departments and agencies, and would tend to overemphasize uniformity in methods. While believing that accounting uniformity is necessary and desirable to a certain extent, the Department does not agree that uniformity alone is a sound basis for adopting procedure which does not further the efficiency or economy of its operations.

Under existing provisions of law, the Comptroller General cooperates with executive agencies in the development of their accounting systems, and has organized facilities for providing advice and assistance in this field. Further, he is required to review accounting systems of the executive agencies, and report his findings to the Congress as well as to the heads of agencies, the Bureau of the Budget, and the Treasury Department. It would appear that the proposed section 2 (c) of H. R. 9402 contemplates duplicating these functions in the Bureau of the Budget. In these circumstances an executive agency would be uncertain as to whether the views of the Bureau of the Budget or the views of the General Accounting Office should prevail in the event of differences.

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The proposed bill requires the assistant director for accounting "(3) to set reasonable and definite schedules for the performance of the functions" of executive agencies, "and to watch and report on their progress." While the present wording would encompass program functions as well as administrative, it is assumed the intent is to limit his responsibilities to his area of competence; namely, to the accounting functions of the executive agencies.

The provision that the assistant director for accounting would "assist actively in the selection, training, and retention of capable personnel" would appear inadvisable from the viewpoint of organizational responsibility.

Section 2 (c) also would authorize and direct the head of each executive agency to appoint a comptroller responsible directly to him. The desirability of this type of organization has been recognized, and recently the comptroller function has been established in the Department of State. However, the Department's concept of this function is broader than that contemplated by H. R. 9402, and it is believed that the present responsibilities of the Department's controller permit a more active role in agency management.

With regard to section 3 of the proposed bill, the Department in the past several years has simplified its allotment structure but has not found it possible under all appropriations to finance each operating unit from a single allotment.

The Department endorses the provisions of section 4 of H. R. 9402 as being in the interest of simplification. However, while the Department adheres to the precepts of section 1311, Public Law 663, it should be recognized that there will always be necessity for adjustments upward or downward in the unliquidated obligations of record.

The Department has been informed by the Bureau of the Budget that there is no objection to the submission of this report.

Sincerely yours,

ROBERT C. HILL,
Assistant Secretary
(For the Acting Secretary of State).

EXHIBIT I

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., March 19, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letters of July 11 and July 15, 1955, requesting the views of the Bureau of the Budget on H. R. 7209 and H. R. 7338, respectively, bills "To provide for improving accounting methods in the executive branch of the Government, and for other purposes."

Both of these bills would amend the Budget and Accounting Procedures Act of 1950. They are identical except that H. R. 7209 sets forth the amount of compensation to be paid the incumbents of the positions established by the bill, while H. R. 7338 does not specify a given amount. Each of these bills, however, would establish a staff office of accounting in the Bureau of the Budget, headed by an assistant director for accounting, who would be appointed by the President subject to confirmation by the Senate and assigned specific duties; and would authorize and direct the head of each executive agency to provide for the appointment of a comptroller, who would be assigned specific functions and duties.

These bills are evidently intended to carry out Recommendation Nos. 10 and 11 in the report on Budget and Accounting of the Commission on Organization of the Executive Branch. In that regard it is not our understanding that the Commission necessarily intended that those recommendations should be carried out through legislation, but rather, that they are proposals directed to the responsible heads of the executive agencies involved. It should be understood, therefore, that our comments which are set out below are directed to the use of legislation to carry out these proposals rather than to the implementation of the recommendations themselves.

The proposed legislation would prescribe by law the internal organization and functions for financial management in the executive agencies. This conflicts with the principle of flexibility reflected in organizational proposals of the first

Hoover Commission. The Congress subsequently endorsed this principle in the legislative enactment of those proposals, which generally placed responsibility for agency functions in the agency head rather than in subordinate officials. This allows agency heads flexibility in the assignment of functions and specific duties in such a way as to provide the most practicable and efficient operation. These bills would run counter to this principle, and we believe that it would be undesirable to impose by law a rigid organization pattern on the agencies and require specific assignments of duties.

Additionally, the provisions in these bills for appointment of the assistant director for accounting in the Bureau of the Budget are not consistent with the method of appointing existing assistant directors. Such appointments are now made by the Director of the Bureau of the Budget, and we consider that to be the appropriate method.

In view of these facts, this office recommends against enactment of these two bills.

Sincerely yours,

ROWLAND HUGHES, *Director.*

EXHIBIT J

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, November 10, 1955.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. CHAIRMAN: Reference is made to your letter of July 11, 1955, acknowledged on July 12, enclosing a copy of H. R. 7209, 84th Congress, requesting our views and recommendations thereon. We also have your letter dated July 15, 1955, in reference to H. R. 7338 which was acknowledged on July 20, 1955. These bills are identical except the latter leaves blank the rate of compensation proposed for the statutory positions provided for therein.

Our letter of October 26, 1955, in response to your request of August 18, 1955, set forth our views in some detail on each of the recommendations contained in the budget and accounting report of the Hoover Commission and, accordingly, we shall not repeat the background portion of our comments in this letter.

This legislation is designed to implement Recommendations Nos. 10, 11 and 12 of the budget and accounting report of the Commission on Organization of the Executive Branch of the Government. Section 120 provides for a staff office of accounting in the Bureau of the Budget and defines the duties of such office. The purpose of this section is to provide a central authority which would have the responsibility for expediting the accomplishment of improved accounting throughout the executive branch. This would be in addition to the responsibilities assigned to the heads of executive agencies in section 113 (a) of the Budget and Accounting Procedures Act of 1950. The definition of duties recognizes and is not inconsistent with the responsibility of the Comptroller General of the United States to prescribe principles, standards, and related requirements pursuant to section 112 (a) of the Budget and Accounting Procedures Act of 1950 and, if appropriately carried out, need not detract from the effectiveness of the current cooperative working arrangements between the General Accounting Office and the executive agencies for systems developments.

It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of management to be successful. However, the objective of the proposed legislation, namely, placing added emphasis on getting the job done Government-wide, could be very helpful in expediting progress and need in no way be deemed inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, Director of the Bureau of the Budget, and the Comptroller General of the United States for several years.

We do not believe that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of assistant director for accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

Section 121 provides for comptrollers in each executive agency. Here, again, we do not believe that legislation is required. Because of the wide divergence in size, functions and existing organizational patterns in the many executive agencies, we believe it would be preferable for the statute to omit or, in any event, be less specific as to the title and compensation of the official to whom the head of the agency would assign the functions and duties described if legislation is deemed desirable.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

EXHIBIT K

TREASURY DEPARTMENT, *March 21, 1956.*

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House Office Building, Washington, D. C.

MY DEAR MR. CHAIRMAN: Reference is made to your letter of July 15, requesting the views of the Treasury Department on H. R. 7338, a bill "to provide for improving accounting methods in the executive branch of the Government, and for other purposes."

The bill would carry into effect Recommendations Nos. 10, 11, and 12 contained in the report on budget and accounting, dated June 1955, made by the Commission on Organization of the Executive Branch of the Government to the Congress. These recommendations are to the effect that the Bureau of the Budget should take over leadership and responsibility for improving the Government's accounting and financial reporting and that the controllership function, as recognized in business, should be established in each major department or agency.

The Treasury Department, in recent years, has been a partner of the Bureau of the Budget and the General Accounting Office in conducting a joint program to improve accounting and reporting in the Federal Government as provided for in the Budget and Accounting Procedures Act of 1950 (64 Stat. 832). Hence, the Department is in complete accord with the end purpose of the bill to give the Government the best possible accounting and reporting at the least possible cost. There is some question, however, whether the bill in its present form will further this objective. Comments on the provisions of the bill are furnished in the attached memorandum.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Very truly yours,

(Signed) W. RANDOLPH BURGESS,
Acting Secretary of the Treasury.

COMMENTS ON H. R. 7338

With regard to section 120 of the bill, it appears that the duties to be imposed upon the assistant director for accounting (in the Bureau of the Budget) would overlap the present statutory duties and authority of the Comptroller General of the United States as specified in the Budget and Accounting Act, 1921 (42 Stat. 20), Federal Property and Administrative Services Act of 1949 (63 Stat. 377), Post Office Department Financial Control Act of 1950 (64 Stat. 460), and Budget and Accounting Procedures Act of 1950 (64 Stat. 832). Moreover, it is possible that because of the reference to reporting, in section 120, the statutory duties of the Secretary of the Treasury regarding financial reporting as specified in the Budget and Accounting Procedures Act of 1950 and other laws might be involved. Enactment of the bill in its present form, without clearing up these questions regarding a statutory realinement of authority and responsibilities, would inevitably lead to disputes and uncertainties due to jurisdictional conflicts, particularly where the General Accounting Office as an agent of the Congress is concerned. It is believed that the executive departments and agencies should not be placed in the position of not knowing precisely to what central authority they must look in the matter of accounting and reporting requirements.

In addition to the above reservations, the Treasury is opposed to specific provisions of the bill as follows:

(1) A division of accounting control responsibilities between the Comptroller General and the assistant director for accounting as provided in section 120 (b) (1), which appears to violate to some extent the generally accepted principle of independent audit and raises the question as to who is primarily responsible for such control from an administrative standpoint;

(2) the provision in section 120 (b) (3) which requires the assistant director for accounting to set schedules for performance of functions in the agencies but does not confine the functions involved to accounting and reporting;

(3) the provision in section 120 (b) (4) requiring the assistant director for accounting to assist actively in the selection, training, and retention of capable personnel in the agencies, which is viewed as an infringement on the responsibilities of the agencies; and

(4) the enactment of section 120 which requires the head of each agency to provide for appointment of a Comptroller with the advice of the assistant director for accounting and prescribes the functions of the comptroller. We do not believe it is necessary or desirable to require the establishment of the position of comptroller in all agencies regardless of the need or circumstances which might prevail in a particular agency. Such action would be a retrogressive step from the progress already made as a result of the previous Hoover Commission recommendations in the direction of making heads of agencies responsible for proper internal organization and alinement of functions. For example, Reorganization Plan No. 26 of 1950 places such responsibility on the Secretary of the Treasury. Therefore, if the position of Comptroller should ever be considered necessary or desirable, legislation would not be necessary to establish the position and functions. The proposed provisions of section 121 are contrary to the provisions of section 113 (a) of the Budget and Accounting Procedures Act of 1950 which places responsibility for the establishment and maintenance of systems of accounting and internal control upon the heads of agencies.

EXHIBIT L

THE SECRETARY OF COMMERCE,
Washington, D. C., March 29, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives,
Washington, D. C.

DEAR MR. CHAIRMAN: This letter is in reply to your request for the views of this Department with respect to H. R. 7338 and H. R. 7209, identical bills to provide for improving accounting methods in the executive branch of the Government, and for other purposes.

These bills would implement recommendations made by the Commission on Organization of the Executive Branch in its report on budget and accounting procedures.

This Department would interpose no objection to enactment of either of these bills if amended as set forth below.

At present overall responsibility for the development of approved accounting systems rests with the Comptroller General and is carried on within his office by the accounting systems division. The bills would provide for the establishment of a similar function in the Bureau of the Budget of the executive branch. It is not clear, however, if the bill would provide for discontinuance of the accounting systems division of the General Accounting Office. It would appear that the subject bills should be amended to provide that the function would be carried on only at the Bureau of the Budget.

These bills would establish in each executive agency an office of the comptroller who would be appointed by the head of the agency with the advice of the assistant director for accounting established in the Bureau of the Budget. The comptroller would be responsible for accounting, management, and budget functions of the agency. It is believed that the head of the executive agency should not be required to clear such appointments with the Bureau of the Budget and, in any event, clearance with an assistant director for accounting would tend to place undue emphasis upon the accounting portion of the comptroller's responsibilities.

The bills provide for an assistant director for accounting in the Bureau of the Budget to be appointed by the President and with the advice and consent of the Senate. At present the Director of the Bureau of the Budget is appointed by the President without confirmation by the Senate and there appears to be no reason why the assistant director should be appointed with the advice and consent of the Senate.

Both bills would provide a comptroller "for executive agencies." It is suggested that this language be amended to read "each executive department or independent establishment in the executive branch of the Government, including any wholly owned Government corporation." The revision would make clear that subordinate bodies within a Department were not intended to be covered by the language.

It is not believed to be desirable that the compensation of the comptrollers of all independent agencies should be established at a uniform rate. The complexity of management, budgeting, and accounting varies widely from agency to agency. It would appear appropriate, therefore, to provide some flexibility in this area, although the position of comptroller of each of the departments would appear to warrant the grade of GS–15.

It also appears to be inappropriate to provide that the comptroller will report directly to the head of the agency since many of the departments have established an assistant secretary for administration who would appear to be the most appropriate official to exercise direct supervision of the comptroller.

It should be noted that this bill would constitute a departure from the practice of placing responsibility in the head of the agency for delegation to such officers as he deems appropriate. Although the policy of centralizing control in the head of the agency is deemed by this Department to be extremely desirable, we would interpose no objection to the enactment of H. R. 7338 or H. R. 7209, amended as set forth above, if the Congress believes the establishment of a comptroller for each Department and independent agency to be desirable.

We have been advised by the Bureau of the Budget that it would interpose no objection to the submission of this report to your committee.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

EXHIBIT M

GENERAL SERVICES ADMINISTRATION,
Washington, D. C., March 29, 1956.

Re H. R. 7209 and H. R. 7338.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: Further reference is made to your letter of July 11 relating to H. R. 7209 and your letter of July 15 relating to H. R. 7338. Each of these bills bears the same title, "To provide for improving accounting methods in the executive branch of the Government, and for other purposes," and the comments of GSA are requested thereon. These bills are identical except in the minor detail that H. R. 7338 does not state the amount of compensation to be paid to the assistant director for accounting, and comptrollers in each agency.

These bills would establish a staff office of accounting in the Bureau of the Budget. An assistant director for accounting would be appointed by the President whose duties would consist of establishing policy for accounting and reporting by the various executive agencies. Such assistant director would assist in introducing modern accounting methods; set definite schedules for executive agencies; assist actively in selecting, training, and retaining personnel; and report to the Director of the Bureau of the Budget.

Further, provision is made for the head of each executive agency, with the advice of the assistant director for accounting, to appoint a comptroller who would be directly responsible to him. Such comptroller in each agency would work closely with the assistant director for accounting in carrying out the functions of such director as set out hereinabove.

It appears that the requirement that each and every agency head must seek "the advice of the assistant director for accounting" in the appointment of a comptroller, is too restrictive. Such procedure might very well set a precedent that would require executive agency heads to "seek advice" of some other person

prior to the appointment of any ranking official whose services would be required to perform the functions of the agency.

The proposal would also dilute the advantages of the coordinating role enjoyed by the Bureau of the Budget, since, to a greater extent than at present, the Bureau would be brought into operations. Further, it would serve to divide authority, while vesting a responsibility for operations at variance with its agency control functions.

There would be no objection to an agency head seeking advice of the assistant director for accounting but it is believed this should be done on a voluntary basis without statutory requirement.

For the reasons above stated, GSA does not favor this proposed legislation in its present form.

The Bureau of the Budget has advised that there is no objection to the submission of this report to your committee.

Sincerely yours,

FRANKLIN G. FLOETE,
Administrator.

EXHIBIT N

DEPARTMENT OF STATE,
Washington, March 23, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. DAWSON: In accordance with your request of July 15, 1955, which was acknowledged on July 21, 1955, the Department of State submits herewith a report and comments on H. R. 7338, a bill "To provide for improving accounting methods in the executive branch of the Government, and for other purposes." This bill is identical in wording to H. R. 7209, on which the Department has been requested to comment, except that the latter bill specifies the salaries to be paid to the proposed assistant director for accounting and agency comptrollers.

Section 120 of the bill proposes to establish in the Bureau of the Budget a staff office of accounting, headed by an assistant director for accounting, who would:

(1) Develop and promulgate an overall plan for accounting and reporting by executive agencies;

(2) expedite, guide, and assist in the introduction of modern accounting methods;

(3) set schedules for the performance of the functions of executive agencies;

(4) stimulate the building of competent accounting and auditing organizations, and assist actively in the selection, training, and retention of capable personnel, and

(5) report periodically with respect to the status of accounting in each of the executive agencies.

The Department endorses the principle set by the Congress in enacting the Budget and Accounting Procedures Act of 1950, which placed on the head of each agency the responsibility for developing an accounting system respondent to the needs of his agency. This principle is meritorious in that it recognizes that each executive agency is dealing with its own unique functions, and that economical and efficient management requires the tailoring of organization and administration to meet the requirements of each singular situation. The Department feels that the proposed centralization of control of fiscal methods and procedure would impinge upon the responsibilities of the departments and agencies, and would tend to overemphasize uniformity in methods. While believing that accounting uniformity is necessary and desirable to a certain extent, the Department does not agree that uniformity alone is a sound basis for adopting procedure which does not further the efficiency or economy of its operations.

Under existing provisions of law, the Comptroller General cooperates with executive agencies in the development of their accounting systems, and has organized facilities for providing advice and assistance in this field. Further, he is required to review accounting systems of the executive agencies, and report his findings to the Congress as well as to the heads of agencies, the Bureau of the Budget, and the Treasury Department. It would appear that the proposed bill H. R. 7338 contemplates duplicating these functions in the Bureau of the Budget.

Section 120 (b) (3) requires the assistant director for accounting "to set reasonable and definite schedules for the performance of the functions" of executive agencies, "and to watch and report on their progress." While the present wording would encompass program functions as well as administrative, it is assumed the intent was to limit his responsibilities to the accounting functions of the executive agencies.

The provision that the assistant director for accounting would "assist actively in the selection, training, and retention" of accounting personnel of other agencies would appear inadvisable from the viewpoint of organizational responsibility.

Section 121 of the bill would authorize the head of each executive agency to appoint a comptroller responsible directly to him. The desirability of this type of organization has been recognized, and recently the comptroller function has been established in the Department of State. However, the Department's concept of this function is broader than that contemplated by H. R. 7338, and it is believed that the present responsibilities of the Comptroller permit a more active role in the Department's management.

The Department has been informed by the Bureau of the Budget that there is no objection to the submission of this report.

Sincerely yours,

ROBERT C. HILL,
Assistant Secretary
(For the Secretary of State).

EXHIBIT O

DEPARTMENT OF AGRICULTURE,
Washington, D. C., April 6, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR CONGRESSMAN DAWSON: Reference is made to your letters of July 11 and 15, 1955, requesting the comments of this Department with respect to two bills, H. R. 7209 and 7338, which provide for improving accounting methods in the executive branch of the Government, and for other purposes.

This Department is in general agreement with the objectives of these bills to improve accounting practices, but we believe that this can be accomplished without additional legislation.

With respect to section 120 which establishes an accounting staff in the Bureau of the Budget to guide agencies in accounting work, we strongly believe that accounting leadership should be fixed in one central agency and not be divided between two such agencies. We endorse and actively participate in the joint accounting improvement program sponsored by the Bureau of the Budget, General Accounting Office, and Treasury Department. At present the GAO has a group which is actively assisting agencies in accounting systems work and the significant progress made in such work is largely attributable to the cooperativeness of this group. Since working relations with GAO have been most satisfactory, it is believed continuation on the present basis is desirable. Confusion and jurisdictional problems could arise with split direction in this field which would impede progress.

With respect to section 121 which provides for the appointment of a "Comptroller" in each agency, the Department is in complete agreement with the apparent objectives, namely, that the duties enumerated should be assigned to an individual located within an agency organizationally and functionally which would assure prompt and appropriate attention to fiscal and accounting activities. The Department is presently following the objectives of this proposal. We do not believe it is necessary to identify a position as "Comptroller" to accomplish the desired results. In our opinion the present assignment of duties and responsibilities to the position of director of finance and budget officer of the Department meets all the major duties and functions specified in section 121.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

TRUE D. MORSE,
Acting Secretary.

EXHIBIT P

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives,
Washington, D. C.

DEAR MR. CHAIRMAN: This is in response to your request for the views of the Department of Justice relative to the substantially similar bills (H. R. 7209 and H. R. 7338) "To provide for improving accounting methods in the executive branch of the Government, and for other purposes."

Section 1 of H. R. 7209 would amend the Budget and Accounting Procedures Act of 1950 so as to establish a staff office of accounting in the Bureau of the Budget, the head of which would be an assistant director for accounting appointed by the President by and with the advice and consent of the Senate at an annual compensation of $15,000. Generally described, the responsibilities of this office would entail developing improved accounting procedures and organizations in the executive branch.

The section would also amend the Budget and Accounting Procedures Act of 1950 to provide for the appointment of a comptroller by the head of each executive agency, with the advice of the assistant director for accounting, at an annual compensation of $15,000. The comptroller would be responsible directly to the agency head and would supervise all accounting work and accounting personnel of the agency.

H. R. 7338 is identical with H. R. 7209 except that the rate of compensation of the assistant director for accounting and the comptrollers is left blank in that bill. These bills appear to carry out recommendations 10 and 11 of the Hoover Commission Report on Budget and Accounting.

Since the proposed creation of the staff office of accounting involves a change in the organizational structure of the Bureau of the Budget, as to which subject the Department of Justice has no special competence, the Department prefers to make no recommendation concerning it. The creation of a position of comptroller in each executive agency to coordinate fiscal matters would be desirable. Since, however, the accounting function is only one aspect of administrative management, which management includes such other administrative services as personnel, procurement, etc., the Committee may desire to consider whether the comptroller should be directly responsible to an official in the nature of an administrative assistant secretary, rather than to the head of the agency.

On the question of whether these positions should be created by legislative enactment or by administrative action, I am advised that the Bureau of the Budget has indicated to your committee opposition to legislation and that greater flexibility would be afforded by administrative action.

The Bureau of the Budget has advised that there is no objection to the submission of this report.

Sincerely,

WILLIAM P. ROGERS,
Deputy Attorney General.

EXHIBIT Q

UNITED STATES DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, April 18, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN DAWSON: This is in further response to your request for a report on H. R. 7209 and H. R. 7338, identical bills "to provide for improving accounting methods in the executive branch of the Government, and for other purposes."

The bills apparently are designed to effectuate recommendations No. 10 and No. 11 by the Commission on Organization of the Executive Branch of the Government in its report entitled "Budget and Accounting." The measures would amend the Budget and Accounting Procedures Act of 1950 so as to establish in the Bureau of the Budget a staff office of accounting headed by an assistant director for accounting and to provide for the appointment of a comptroller in each of the executive agencies. The functions and duties of these officers would be those specified in the bills.

While those recommendations of the Commission in themselves have my approval, I do not believe that these bills provide the best method of attaining the results desired by the Commission. The recommendations, in fact, do not require legislative action, but can be put into effect by administrative action.

The vesting of functions in subordinate officers of executive agencies, as proposed by this legislation, is inconsistent with the principle of placing the responsibility for the internal organization of executive agencies under the direction of agency heads. This principle was embodied in the recommendation of the first Hoover Commission in its first report on February 7, 1949, that "each department head should receive from the Congress administrative authority to organize his department and to place him in control of its administration." Congress recognized the validity of this proposition in assenting to the various reorganization plans transferring to agency heads all duties and functions placed by statute in subordinate officers in their agencies. H. R. 7209 and H. R. 7338 would seem to detract from this established principle, and would create an unnaturally rigid organization pattern within the agencies.

For these reasons I would not favor the enactment of these bills.

The Bureau of the Budget advises that it has no objection to the submission of this report.

Sincerely yours,

JAMES P. MITCHELL,
Secretary of Labor.

EXHIBIT R

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, D. C., February 3, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. DAWSON: This is in response to your request of January 9, 1956, acknowledged January 13, requesting a report on H. R. 8236, 84th Congress, entitled "A bill to provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof."

The proposed legislation would carry out recommendation No. 22 contained in the budget and accounting report of the Hoover Commission. As stated in our comments of October 26, 1955, B-125294, to you, on the Hoover Commission Report on Budget and Accounting, we fully endorse the objective of full disclosure of the financial results of the activities of the Government in a manner most useful to the executive branch, the Congress, and the public. Enactment of the instant bill would tend to accomplish that objective. The executive agency to be responsible for developing comprehensive financial reports, however, is a matter for determination by the executive branch with the consent of the Congress and we offer no specific comment on this point.

Although adequate central reporting can only be achieved after agency accounting systems, maintained on an accrual basis, have been developed sufficiently to provide reliable and concise financial data susceptible of consolidation, a comprehensive program to develop central reporting should be given a high priority and should be aggressively conducted by the executive branch. Such a program should also provide for an increased and continuing review as to the usefulness of the present published data. There is underway at the present time a project under the joint program of the Bureau of the Budget, Treasury Department, and General Accounting Office to improve the system of reporting the assets, liabilities, and financial transactions of all revolving-fund operations and selected commercial-type enterprises. A proposed Treasury regulation to replace existing instruction has been reviewed by all agencies of the Government and is expected to be issued in the near future.

This reporting requirement is tied in very closely with the requirements for reporting by these business-type enterprises under the budget process to enable the Bureau of the Budget and others concerned to compare financial progress of agency programs throughout the year against their budget estimates. This type of reporting will also fulfill a long recognized need for central financial statements reflecting the assets and liabilities of a large segment of the Government's operations.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

EXHIBIT S

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., March 19, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: This will acknowledge your letter of January 9, 1956, inviting the Bureau of the Budget to comment on H. R. 8236, a bill "To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof."

This bill is evidently based upon recommendation No. 22 in the budget and accounting report issued by the (Hoover) Commission on Organization of the Executive Branch of the Government: "That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

This bill would amend the Budget and Accounting Procedures Act of 1950 by adding a new section that would require the Bureau of the Budget to present to the Congress annual reports on the financial results of Government activities, and provides that each executive agency shall furnish the Bureau with the information required for such reports. The effect of the enactment of H. R. 8236 is not clear, however, since existing provisions of the Budget and Accounting Procedures Act of 1950 require the Secretary of the Treasury to prepare reports that will "present the results of the financial operations of the Government" and H. R. 8236 does not amend that requirement. The proposed legislation, therefore, holds a potential for duplication of effort in the central agencies as well as undesirable effects in the operating agencies required to produce the necessary information.

The development of an integrated system of financial reporting by the Government that would avoid duplication of effort in the operating and central agencies is one of the major objectives of the joint accounting program. Progress has been and is being made in that direction, based on the cooperative efforts of the General Accounting Office, the Treasury Department, the Bureau of the Budget, and the operating agencies. Illustrative of the results being obtained are the recent improvements in the central reports issued by the Treasury Department. Work is currently underway in this program on the development by the operating agencies of the kinds of financial information which will be needed to provide the basis of improved central reports of the types recommended by the Hoover Commission. As the Commission task force noted, however, this objective cannot be completely attained until the accounting systems throughout the executive branch have been developed sufficiently to produce the necessary data.

In view of these facts, the Bureau of the Budget believes that legislation on this subject at this time would be premature and recommends against the enactment of H. R. 8236.

Sincerely yours,

ROWLAND HUGHES, *Director.*

EXHIBIT T

APRIL 26, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: Reference is made to your request for the views of the Treasury Department on H. R. 8236, a bill "To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof."

The bill would authorize and direct the Director of the Bureau of the Budget to prepare or cause to be prepared for submission to the Congress at each regular session thereof a comprehensive report (other than a purely fiscal report) with respect to the financial results of the activities of all branches of the Government and of each executive agency thereof, and would require each executive agency to furnish such information as the Director of the Bureau of the Budget might require for such purpose.

It is not entirely clear what is meant by "a comprehensive report (other than a purely fiscal report)," which the Director of the Bureau of the Budget would be required to prepare. Section 114 of the Budget and Accounting Procedures Act of 1950 (64 Stat. 832) provides that the Secretary of the Treasury shall prepare such reports for the information of the President, the Congress and the public as will present the results of the financial operations of the Government, and each agency is required to furnish the Secretary of the Treasury such reports and information relating to its financial condition and operations as the Secretary, by rules and regulations, may require for the effective performance of his responsibilities.

By virtue of the nature of the Treasury's operations as the financial department of the Government, it is the source of a great deal of fiscal data and the focal point of much of the Government's accounting. Therefore, it is not only logical but practical for the Treasury to be the operating center of accounting and financial reporting as provided for in section 114, referred to above. In this connection, the Treasury now prepares various central reports pertaining to receipts and expenditures, the status of appropriations, the public debt, foreign currencies, assets and liabilities of executive agencies, long-range commitments and contingencies, and other reports having to do with the Government's finances from an overall standpoint. There appears to be no real necessity or advantage to make the Bureau of the Budget, which is essentially a staff agency of the President, an operating agency instead of the Treasury in this respect.

Accordingly, the Treasury Department does not recommend enactment of the proposed legislation.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee.

Very truly yours,

W. Randolph Burgess,
Acting Secretary of the Treasury.

Exhibit U

Department of Agriculture,
Washington, D. C. March 30, 1956.

Hon. William L. Dawson,
Chairman, Committee on Government Operations,
House of Representatives.

Dear Congressman Dawson: This is in reply to your request of January 9, 1956, for a report on H. R. 8236, a bill to provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof.

The bill amends the Budget and Accounting Procedures Act of 1950 so as to make the Director of the Bureau of the Budget responsible for the annual preparation and submission to the Congress of a comprehensive report (other than a purely fiscal report) showing the financial resources and financial results of operations of all branches of the Government and of each executive agency thereof. It also requires the head of each executive agency to furnish such information as the Director of the Bureau of the Budget may require in the preparation of the comprehensive report.

The Department agrees that a comprehensive report showing the financial resources and financial results of operations should be available, but understands that this objective can be accomplished without additional legislation.

It is our opinion that, under present accounting systems, the financial information apparently contemplated in the bill can be furnished without undue difficulty. In prescribing regulations for the preparation of the reports, we assume the Director of the Bureau of the Budget would take into consideration the kinds of accounting and program data available and appropriate to the types of operations conducted. Furthermore, it should be recognized that much of the financial information of the type referred to in the bill now appears in the annual budget, and any reporting regulations which may be issued upon enactment of this bill should be so drawn as to avoid duplication of this reported information.

In view of the existing responsibilities of the Treasury Department in the area of central financial reports, it is believed that the bill should more clearly distinguish between the responsibilities of the Treasury and the Budget Bureau

in order to avoid all possible confusion or duplication, particularly in their relationships with individual agencies. Section 114 of the Budget and Accounting Procedures Act places in the Treasury Department the primary responsibility for overall financial reporting on the Government's activities. The mere addition of section 120, as proposed in the bill, could serve to generate an overlapping of functions or a duplication in reporting requirements. The adjustment of the Budget Bureau-Treasury relationships on financial reporting would have to be determined outside this Department.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

TRUE D. MORSE, *Acting Secretary.*

EXHIBIT V

DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D. C., March 28, 1956.

Hon. WILLIAM A. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

MY DEAR MR. DAWSON: This responds to your request for the views of this Department on H. R. 8236, a bill to provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof.

We recommend that the bill not be enacted.

H. R. 8236 would amend the Budget and Accounting Procedures Act of 1950 by adding a new section which would require the Director of the Bureau of the Budget to transmit to the Congress at the beginning of each session a comprehensive report on the financial results of the activities of the Government. The report would contain, with respect to the operations and activities of each agency, information concerning: (1) Costs; (2) assets and liabilities; (3) the extent of contingent liabilities; and (4) any other pertinent information determined by the Director of the Bureau of the Budget to be pertinent.

It appears that H. R. 8236 is designed to make effective recommendation No. 22 of the report on budget and accounting of the Commission on Organization of the Executive Branch of the Government. That recommendation is:

"That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities."

Executive agencies are required now to submit annual reports to the Congress dealing with the conduct of their operations. Numerous other regular and special reports and substantial detailed information is made available to the Appropriations Committees and the Committees on Government Operations, and other committees of the Congress and to the Bureau of the Budget. It would seem that all of the documents would furnish sufficient information and data with respect to the performance by the various agencies of their functions and activities without requiring the preparation of an additional detailed and complicated report, the preparation of which would consume much time, effort, and money.

With respect to the specific provisions of the bill, this Department would find itself in a difficult position to comply fully with the reporting requirements because of the accounting systems now in use. A cost accounting system is not utilized throughout the Department, particularly with respect to those bureaus and offices which conduct only administrative-type operations. Those same bureaus and offices which have purely administrative-type operations do not utilize accrual accounting procedures, which are required in arriving at statements of liabilities. Thus, enactment of legislation along the lines proposed in the bill would result in our undertaking considerable accounting system work not otherwise required by our responsibilities and activities.

The Bureau of the Budget has advised that there is no objection to the submission of this report to your committee.

Sincerely yours,

D. OTIS BEASLEY,
Administrative Assistant Secretary of the Interior.

EXHIBIT W

DEPARTMENT OF STATE,
Washington, March 30, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. DAWSON: In accordance with your request of January 9, 1956, which was acknowledged on January 16, the Department of States submits herewith a report and comments on H. R. 8236, "To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof."

The bill proposes to amend the Budget and Accounting Procedures Act of 1950 by adding a new section No. 120 which would require the Director of the Bureau of the Budget to transmit to the Congress at the outset of each regular session a comprehensive report with respect to the financial results of the activities of all branches of the Government. This proposal would implement one of the recommendations of the Commission on Organization of the Executive Branch of the Government contained in its report to the Congress in June 1955, on budget and accounting.

The Budget and Accounting Procedures Act of 1950 places on the Secretary of the Treasury the responsibility for preparing, for the information of the President, the Congress, and the public, such reports as will present the results of the financial operations of the Government. It appears that this law provides adequate authority and fixes responsibility for the preparation of comprehensive reports with respect to the financial results of Government activities. Further, the passage of the proposed bill would appear to create a duplication of responsibility between the Treasury and the Bureau of the Budget for the same function.

In its report to the Commission on Organization of the Executive Branch of the Government, the task force on budget and accounting referred to the recommendation on comprehensive reports as follows:

"The Bureau of the Budget can meet this responsibility completely only after agency accounting systems, maintained on the accrual basis, have been developed sufficiently to provide reliable and concise financial data susceptible of consolidation."

From this it would appear that the Commission's task force believed that decisions on certain fundamental accounting issues, such as whether the accrual accounting basis should be adopted for all agencies, logically should precede further development of the reporting system. In this regard, the Department invites the attention of the committee to the dissents of Commissioners Brown, Farley, and Holifield as set forth in the Commission's report.

The Department has been informed by the Bureau of the Budget that there is no objection to the submission of this report.

Sincerely yours,

ROBERT C. HILL,
Assistant Secretary
(For the Secretary of State).

EXHIBIT X

GENERAL SERVICES ADMINISTRATION,
Washington, D. C., April 20, 1956.

Re H. R. 8236

WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives,
Washington, D. C.

DEAR MR. CHAIRMAN: Further reference is made to your letter of January 9, 1956, which requested GSA's comments on H. R. 8236, a bill "To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof."

This proposed legislation would authorize and direct the Director of the Bureau of the Budget to submit annually to the Congress a comprehensive report (other than a purely fiscal report), with respect to the financial results

of the activities of all branches of the Government and of each executive agency thereof. The Director of the Bureau of the Budget would be given authority to determine the type of information required to be submitted by the governmental departments and agencies. This bill appears to be an implementation of Recommendation No. 22 of the recent Commission on Organization of the Executive Branch of the Government.

In the event that the Director of the Bureau of the Budget should determine to report minute operating detail, as could be required under the provisions of this legislation, this could result in imposing a heavy administrative and reporting workload which could prove to be a burden to all branches of the Government. To some extent, also, the information required would duplicate that included in agency annual and special reports now required to be submitted to the Congress.

GSA stated its position on this subject to the Director of the Bureau of the Budget in commenting on recommendation No. 22, referred to above, as follows:

"GSA concurs in principle with a broad-stroke annual report by the President on past performance of the executive branch as a whole. Unless it is in broad strokes, such a report on the world's largest business would be such a mass of statistics that it would be of little use."

It would appear that the comprehensive features of the proposed report must necessarily include a report on agency fiscal operations. Thus, a report which is aimed at a review of the operational aspects of an agency would be a vehicle for a financial study under a new guise. This would seem to duplicate the reporting requirement of the Budget and Accounting Procedures Act of 1950 which requires the Secretary of the Treasury to prepare reports that will "present the results of the financial operations of the Government." H. R. 8236 holds a potential for duplication of effort in the central agencies as well as undesirable effects in the operating agencies required to produce the necessary information.

In view of these facts, GSA believes that legislation on this subject at this time would not prove a benefit and therefore, recommends against the enactment of H. R. 8236.

The Bureau of the Budget has advised that there is no objection to the submission of such report as GSA may deem appropriate.

Sincerely yours,

FRANKLIN G. FLOETE,
Administrator.

EXHIBIT Y

UNITED STATES DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, April 11, 1956.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN DAWSON: This is in reply to your request for my comments on H. R. 8236, a bill "to provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof."

The bill would require the Director of the Bureau of the Budget to submit to Congress in each regular session a complete financial report on Government activities which would be broken down by agencies and would contain detailed information on the operations of each agency. The proposal apparently is designed to implement Recommendation No. 22 of the Report of the Commission on Organization of the Executive Branch of the Government on Budget and Accounting.

The information which this bill would require to be furnished to Congress is for the most part now made available. Enactment of the bill, therefore, would result in considerable duplication in effort and cost. For example, budget estimates now submitted to the Congress contain much information of an operational as well as a fiscal nature. Among other things, these estimates record accomplishments for the most recent complete fiscal year and for the first half of the current fiscal year. They contain cost figures on both functional and

organizational bases. I doubt that overlapping and wasteful repetition between these estimates and the reports contemplated by H. R. 8236 could be eliminated.

The requirements of the proposed bill would impose a serious burden on all the agencies of the Federal Government at the approximate time when the agencies are engaged in preparing material for the annual appropriation hearings. This material may well duplicate information required under H. R. 8236.

For these reasons I would not favor the enactment of the bill.

The Bureau of the Budget advises that it has no objection to the submission of this report.

Sincerely yours,

JAMES P. MITCHELL,
Secretary of Labor.

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LEGISLATIVE HISTORY

Public Law 863
S. 3897

TABLE OF CONTENTS

INDEX AND SUMMARY OF S. 3897

May 21, 1956	Sen. Kennedy, et al introduced S. 3897 which was referred to the Senate Committee on Government Operations. Print of bill. Remarks of Sen. Kennedy.
May 29, 1956	Rep. Rogers, Fla., introduced H. R. 11526 which was referred to the House Committee on Government Operations. Print of bill. Remarks of Rep. Rogers.
June 7, 1956	Senate committee ordered S. 3897 reported.
June 19, 1956	Senate committee reported S. 3897 without amendment. Sen. Kennedy discussed S. 3897. S. 3897 was made the unfinished business. (Senate Report No. 2265. Print of bill and report
June 20, 1956	Senate passed S. 3897 without amendment.
June 21, 1956	S. 3897 was referred to House Committee on Government Operations. Print of bill as referred.
July 11, 1956	House committee ordered H. R. 11526 reported.
July 13, 1956	House passed as reported H. R. 11526; action on this bill was vacated due to passage of S. 3897. House passed S. 3897 with amendment (amendment consisted of the insertion of the language of H.R. 11526).
July 16, 1956	House committee reported H. R. 11526 with amendments, House had previously passed H. R. 11526 on July 13. Print of report only; bill as reported not printed. House Report No. 2734.
July 17, 1956	Senate conferees were appointed on S. 3897.
July 18, 1956	House conferees were appointed.
July 19, 1956	Conferees agreed to file a report.
July 23, 1956	House received and agreed to conference report. House Report No. 2872. Print of report.
July 25, 1956	Senate agreed to conference report.
Aug. 1, 1956	Approved: Public Law 863, 84th Cong.

(See next page re hearings).

HEARINGS: House Committee on Government Operations on H. R. 9402, 7209, 7338, 8236, 11052 and 11526. May 21, 22, June 12 and 19, 1956.

Senate Committee on Government Operations on S. 3362, S. 2199, 2480, 2369 and S. 3897. Part I, March 20, 21, 26, 27, and 28, 1956. (This was not designated as Part I on the printed hearing, but then Part II came in designated as such.)

Part II. Senate Committee on Government Operations on S. 3897 only. June 4, 5, and 6, 1956.

DIGEST OF PUBLIC LAW 863

AMENDMENTS TO BUDGET AND ACCOUNTING ACTS. Amends the Budget and Accounting Act, 1921, the Budget and Accounting Procedures Act of 1950, and Sec. 3679(g), Revised Statutes, to provide that (a) requests for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets; (b) such cost-based budgets shall be used by all departments and their subordinate units for purposes of administration, including use of such budgets as a basis for administrative subdivision of funds; (c) as soon as practicable and in accordance with standards prescribed by GAO, accounts shall be maintained on an accrual basis to show resources, liabilities and costs of operations with a view to facilitating the preparation of cost-based budgets required by the Act; (d) accounting systems required by the Act shall include adequate monetary property accounting records as an integral part of the system; (e) Departments shall, in consultation with the Budget Bureau, take action needed to achieve, insofar as is possible, consistency in accounting and budget classifications, synchronization between such classifications and organizational structure, and support of Budget justifications by information on performance and program costs by organizational units; (f) the Budget shall contain, in such form and detail as the President may determine and at such times as may be practicable, information on program costs and accomplishments; and (g) Departments shall

work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.

S. 3897

IN THE SENATE OF THE UNITED STATES

[illegible]

A BILL

[illegible]

84TH CONGRESS
2D SESSION

S. 3897

IN THE SENATE OF THE UNITED STATES

MAY 21 (legislative day, MAY 7), 1956

Mr. KENNEDY (for himself, Mr. PAYNE, Mr. BYRD, Mr. BRIDGES, Mr. MCCLELLAN, Mr. JACKSON, Mr. HUMPHREY, Mr. MCCARTHY, Mr. MUNDT, Mrs. SMITH of Maine, Mr. BENDER, Mr. MARTIN of Iowa, Mr. WELKER, Mr. CHAVEZ, Mr. HRUSKA, Mr. BUSH, Mr. FLANDERS, Mr. IVES, Mr. THYE, Mr. MAGNUSON, Mr. SALTONSTALL, Mr. BUTLER, Mr. MARTIN of Pennsylvania, Mr. DIRKSEN, Mr. BENNETT, Mr. CURTIS, Mr. SMITH of New Jersey, Mr. BEALL, Mr. MANSFIELD, Mr. CASE of South Dakota, Mr. LANGER, and Mr. BARRETT) introduced the following bill; which was read twice and referred to the Committee on Government Operations

A BILL

To improve governmental budgeting and accounting methods and procedures, and for for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921
4 SEC. 1. (a) Section 201 of the Budget and Accounting
5 Act, 1921, as amended (31 U. S. C. 11), is further amended
6 by inserting "(a)" after the words "SEC. 201."; by chang-
7 ing subsection (a) to subparagraph (1); by adding after

1 subparagraph (1) a new subparagraph "(2) at such times
2 as may be practicable, information on program costs and ac-
3 complishments"; by changing subsections (b) through (j)
4 to subparagraphs (3) through (11), respectively; and by
5 adding the following new subsections:

6 "(b) The amounts of proposed appropriations referred
7 to in sections 201 (a) and 203 of this Act shall, to the maxi-
8 mum extent deemed desirable and practicable by the Presi-
9 dent, be determined on an annual accrued expenditure basis.

10 "'Annual accrued expenditures' shall relate to goods and
11 services to be received in a fiscal year, advance payments,
12 progress payments, and such other payments as are author-
13 ized by law to be made in such fiscal year.

14 "This subsection shall not apply to appropriations made
15 specifically for the payment of claims certified by the Comp-
16 troller General and of judgments; appropriations for the re-
17 fund of Federal taxes and of other moneys erroneously
18 received and covered into the Treasury of the United States;
19 appropriations made by private relief Acts of Congress;
20 appropriations for the payment of interest on trust funds;
21 revolving funds or appropriations thereto; appropriations for
22 the payment to former members of the Armed Forces, their
23 dependents and beneficiaries, of any benefits to which they
24 are entitled by reason of military service; appropriations for
25 the payment of pensions and annuities; appropriations for

1 the payment of any obligation of the United States for which
2 liability is fixed by treaty; and other appropriations or funds
3 analogous to the foregoing.

4 "(c) The conversion to the use of annual accrued ex-
5 penditures for stating proposed appropriations in accordance
6 with section 201 (b) of this Act shall be accomplished in
7 such manner and at such times as may be determined by
8 the President.

9 "(d) As of the end of each fiscal year, the excess of
10 any appropriation or fund made on an annual accrued ex-
11 penditure basis over the accrued expenditures under such
12 appropriation or fund shall lapse, unless hereafter provided
13 otherwise in an appropriation Act or other law. Any re-
14 maining balances of each such appropriation or fund shall
15 be merged with any appropriation or fund made for the same
16 general purpose for the ensuing fiscal year and shall constitute
17 a single account."

18 (b) Section 216 of such Act, as amended (31 U. S. C.
19 24), is further amended by inserting "(a)" after the words
20 "SEC. 216." and by adding the following new subsections:

21 "(b) The requests of the departments and establish-
22 ments for appropriations shall, in such manner and at such
23 times as may be determined by the President, be developed
24 from cost-based budgets.

25 "(c) For purposes of administration and operation, such

1 cost-based budgets shall be used by all departments and
2 establishments and their subordinate units. Administrative
3 subdivisions of appropriations or funds shall be made on the
4 basis of such cost-based budgets."

5 AMENDMENTS TO THE BUDGET AND ACCOUNTING
6 PROCEDURES ACT OF 1950

7 SEC. 2. (a) The Budget and Accounting Procedures
8 Act of 1950 is amended by inserting after section 105
9 thereof the following new section:

10 "ACCOUNTING AND BUDGET CLASSIFICATIONS

11 "SEC. 106. The head of each executive agency shall,
12 in consultation with the Director of the Bureau of the
13 Budget, take whatever action may be necessary to achieve,
14 insofar as is possible, (1) consistency in accounting and
15 budget classifications, (2) synchronization between account-
16 ing and budget classifications and organizational structure,
17 and (3) support of the budget justifications by information
18 on performance and program costs by organizational units."

19 (b) Section 113 of such Act (31 U. S. C. 66a) is
20 amended by adding at the end thereof the following new
21 subsection:

22 "(c) As soon as practicable after the date of enact-
23 ment of this subsection, the head of each executive agency
24 shall, in accordance with principles and standards prescribed
25 by the Comptroller General, cause the accounts of such

1 agency to be maintained on an accrual basis to show the
2 resources, liabilities, and costs of operations of such agency
3 with a view to facilitating the preparation of cost-based
4 budgets as required by section 216 of the Budget and
5 Accounting Act, 1921, as amended. The accounting system
6 required by this subsection shall include adequate monetary
7 property accounting records as an integral part of the
8 system."

9 (c) Section 118 of such Act is amended by inserting
10 "113 (c)" after the words "section 111".

11 SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

12 SEC. 3. Section 3679 (g), Revised Statutes, as amended
13 (31 U. S. C. 665 (g)), is further amended by adding at the
14 end thereof the following sentence: "In order to have a
15 simplified system for the administrative subdivision of appro-
16 priations or funds, each agency shall work toward the
17 objective of financing each operating unit, at the highest
18 practical level, from not more than one administrative sub-
19 division for each appropriation or fund affecting such unit."

84TH CONGRESS
2D SESSION

S. 3897

A BILL

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

By Mr. KENNEDY, Mr. PAYNE, Mr. BYRD, Mr. BRIDGES, Mr. MCCLELLAN, Mr. JACKSON, Mr. HUMPHREY, Mr. MCCARTHY, Mr. MUNDT, Mrs. SMITH of Maine, Mr. BENDER, Mr. MARTIN of Iowa, Mr. WELKER, Mr. CHAVEZ, Mr. HRUSKA, Mr. BUSH, Mr. FLANDERS, Mr. IVES, Mr. THYE, Mr. MAGNUSON, Mr. SALTONSTALL, Mr. BUTLER, Mr. MARTIN of Pennsylvania, Mr. DIRKSEN, Mr. BENNETT, Mr. CURTIS, Mr. SMITH of New Jersey, Mr. BEALL, Mr. MANSFIELD, Mr. CASE of South Dakota, Mr. LANGER, and Mr. BARRETT

MAY 21 (legislative day, MAY 7), 1956

Read twice and referred to the Committee on Government Operations

Resolved, That the city clerk be directed to forward a copy of this resolve to the Congressmen and Senators from this district.

In city council, April 25, 1956, adopted.

JAMES T. CAREY,
City Clerk.

Approved May 3, 1956.

JOHN F. KANE,
Mayor.

SUPPORT PRICES FOR GRAIN SORGHUMS—LETTER

Mr. KENNEDY. Mr. President, I ask unanimous consent to have printed in the RECORD a letter written by Julian B. Thayer, president, Eastern States Farmers' Exchange, West Springfield, Mass., dated May 7, 1956, to the board of directors of the exchange, relating to support prices for grain sorghums.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

EASTERN STATES FARMERS' EXCHANGE,
West Springfield, Mass., May 7, 1956.

To the Board of Directors:

Recognizing our primary function to prosper our members through the best in the procurement of farm supplies, the Eastern States Farmers' Exchange has traditionally kept out of the field of attempting to speak as an organization for its members on matters pertaining to legislation—except for some very broad issues in which all cooperatives had a vital stake. We will not depart from that procedure 'till such time as the board might indicate it wished to do so.

We are, however, today confronted with a very serious issue, namely, what sort of a farm bill is to presently become law?

The inclusion of a proposal to support grain sorghums, oats, barley, and rye at somewhere between 70 percent and 81.5 percent of parity, and to perhaps make mandatory cuts in acreage for these grains up to 20 percent of last year's production, can have only one effect on the northeastern farmers in the feed deficit areas.

My personal opinion is that the very substantial increase in the price of grain which our farmer members have experienced in the past few weeks is due largely to the effects of anticipated farm legislation.

Should the new amendment referred to above become law, I can only conclude that the immediate impact on our already swollen feed costs would be extremely serious.

I hardly need add that in such an event my opinion is that our northeastern farmers would be in a cost-price squeeze deluxe.

Certainly, with the present abundance of all things we are producing here, it would be naive to even hope to cover any part of these new costs by an increase in the price of our products.

The purpose in bringing this matter to your attention is simply to alert you to some of the implications which appear to be in this proposed legislation.

My profound respect for the judgment of you men leads me to believe that any expression of opinion you as individuals see fit to send to your respective Senators and Representatives will be most helpful to them in the complex and difficult legislative situation they must resolve.

Faithfully yours,

JULIAN B. THAYER,
President.

FLUORIDATION OF PUBLIC WATER SUPPLIES—MEMORIAL

Mr. KENNEDY. Mr. President, I ask unanimous consent to have printed in the RECORD a memorial which I have received from Mrs. Richard T. Cash, 2 Summer Street, R. F. D., Norwell, Mass., dated May 6, 1956, concerning the use of fluorine in public-water supplies.

There being no objection, the memorial was ordered to be printed in the RECORD, as follows:

NORWELL, MASS., *May 6, 1956.*

Hon. JOHN F. KENNEDY,
Senate Office Building,
Washington, D. C.

DEAR SIR: In view of increasing agitation for the use of fluorine in public-water supplies, we wish to call to your attention our strong objections to such a measure. We believe there has been an attempt to suppress any unfavorable results stemming from the use of fluoridated water, and to present to the general public only arguments tending to support the practice.

The fact that there is even an element of risk should justfy the exercise of caution. We believe that you, sir, would not want to place your own good health, or that of your family or friends in jeopardy, and feel sure that after serious consideration, you will agree that it would be well to determine what the scientific evidence against, as well as for the procedure may be.

We believe that the statistics pertaining to this subject should be examined by a congressional body assisted by a competent independent satistician.

Will you kindly read this letter to Congress and have it inserted in the RECORD.

Respectfully yours,

IDA M. CASH.
(Mrs. R. T.)
RICHARD T. CASH.

THOMAS M. PEPPERDAY—LETTER AND MEMORIAL

Mr. CHAVEZ. Mr. President, I have received a letter from Diego Abeita, chairman of the Irrigation Committee, Middle Rio Grande Pueblos, together with a memorial adopted by the Tribal Council in honor of public-spirited citizens in my State.

I ask unanimous consent that the letter and memorial may be printed in the RECORD.

There being no objection, the letter and memorial were ordered to be printed in the RECORD, as follows:

ISLETA PUEBLO,
Isleta, N. Mex., May 18, 1956.

DEAR SENATOR CHAVEZ: We just thought that you might be interested to know that the Pueblos are grateful for the services that public men render to their fellow human beings. It is our feeling that maybe one of our delegation might have this memorial placed in the CONGRESSIONAL RECORD as a tribute to our friend, Mr. Pepperday.

Thanking you very much and with very best regards, I am,

Sincerely yours,

DIEGO ABEITA,
Chairman, Irrigation Committee,
Middle Rio Grande Pueblos.

We are the governors of the pueblos of Cochiti, Santo Domingo, San Felipe, Santa Ana, Sandia, and Isleta, and the chairmen of their irrigation committee. We are meeting in Albuquerque. We want to say how sorry we are that Mr. Thomas M. Pepperday, the owner of the Albuquerque Journal, is dead. We speak not only for ourselves but for all of our people.

We are sad in our hearts because our good friend is gone, and we will miss him very much.

We, the Indians, usually do not get a chance to visit great people but Mr. Pepperday always was ready to see us and to hear us tell our story. He always gave his attention to us in his paper and when he thought our case was right he supported us even against great powers. When he thought we were wrong he did not support us but even then he opened his mind to us and he told our side of the story fairly.

If we wanted to we could put down some of the gains that have come to our people directly from the support of Mr. Pepperday. But his influence was greater than that. For the very fact that he and the Journal were interested in us as human beings, that they were aware of our needs and would state our case publicly, was in itself a powerful guaranty that those who were employed to work for us would be faithful to their trust and that the unscrupulous could be kept at bay. His watchfulness in our interest in itself gave us a feeling of comfort and confidence.

Besides, we know that he helped individual Indian young people and hardly anybody knew about it. One of our leaders today, a man on whom we rely heavily, owes his early training and his education to Mr. Pepperday's help and encouragement. We liked Mr. Pepperday not for what he did for us, not for what we could get from him, but because we felt and knew that he was our friend, that he liked us and we liked him. We will miss him. We want Mrs. Pepperday and the people who worked with Mr. Pepperday on the paper and all the people of Albuquerque to know how we feel. We will pray for him. We are going to send a copy of this to Mrs. Pepperday and to some of our other friends, not only in New Mexico but in the rest of the country, so that they will know how we feel. We are signing this at a special meeting we held in Albuquerque on May 18, 1956.

Diego Aberta, Chairman, Irrigation Committee, Middle Rio Grande Pueblos; John C. Rainer, Chairman, All-Pueblo Council; Raymond Herrera, Governor, Pueblo of Cochiti; Santiago Pena, Governor, Pueblo of Santo Domingo; Pete Johnson, Governor, Pueblo of San Felipe; Jose Bobe Pino, Governor, Pueblo of San Ana; Ignacio Baia, Governor, Pueblo of Sandia; Ramon Zuni, Governor, Pueblo of Isleta.

REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. EASTLAND, from the Committee on the Judiciary, without amendment:

S. 911. A bill for the relief of Eftalia G. Stathis and Ariadni Vassiliki G. Stathis (Rept. No. 2024);

S. 1869. A bill for the relief of George Papoulias and Irene Papoulias (nee Birbilis) (Rept. No. 2025);

S. 2800. A bill for the relief of David Chih-Wei Kwok (Rept. No. 2026);

S. 2842. A bill for the relief of Toini Margareta Heino (Rept. No. 2027);

H. R. 1402. A bill for the relief of Santiago Gonzales Trigo (Rept. No. 2028);

H. R. 2045. A bill for the relief of Joe Bargas (Rept. No. 2030); and

H. R. 5079. A bill for the relief of Tom Wong (Foo Tai Nam) (Rept. No. 2029).

By Mr. EASTLAND, from the Committee on the Judiciary, with an amendment:

S. 1104. A bill for the relief of Zoltan Klar and his wife, Vilma Hartmann Klar, and their minor son, Tibor Klar (Rept. No. 2031); and

H. R. 909. A bill for the relief of Charles O. Ferry and other employees of the Alaska Road Commission (Rept. No. 2032).

ILLICIT NARCOTICS PROBLEM IN THE DISTRICT OF COLUMBIA (S. REPT. NO. 2033)

Mr. DANIEL, from the Committee on the Judiciary, pursuant to Senate Resolution 67 and Senate Resolution 166, 84th

Congress, submitted a report entitled "Illicit Narcotics Problem in the District of Columbia," which was ordered to be printed.

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. CHAVEZ:

S. 3894. A bill to facilitate the making of lease-purchase agreements by the Administrator of General Services under the Public Buildings Act of 1949, as amended, and by the Postmaster General under the Post Office Department Property Act of 1954, and for other purposes; to the Committee on Public Works.

By Mr. SALTONSTALL:

S. 3895. A bill for the relief of Clifford L. Clarke; to the Committee on the Judiciary.

By Mr. SALTONSTALL (by request):

S. 3896. A bill for the relief of Venanzio Girardi; to the Committee on the Judiciary.

By Mr. KENNEDY (for himself, Mr. PAYNE, Mr. BYRD, Mr. BRIDGES, Mr. MCCLELLAN, Mr. JACKSON, Mr. HUMPHREY, Mr. MCCARTHY, Mr. MUNDT, Mrs. SMITH of Maine, Mr. BENDER, Mr. MARTIN of Iowa, Mr. WELKER, Mr. CHAVEZ, Mr. HRUSKA, Mr. BUSH, Mr. FLANDERS, Mr. IVES, Mr. THYE, Mr. MAGNUSON, Mr. SALTONSTALL, Mr. BUTLER, Mr. MARTIN of Pennsylvania, Mr. DIRKSEN, Mr. BENNETT, Mr. CURTIS, Mr. SMITH of New Jersey, Mr. BEALL, Mr. MANSFIELD, Mr. CASE of South Dakota, and Mr. LANGER):

S. 3897. A bill to improve governmental budgeting and accounting methods and procedures, and for other purposes; to the Committee on Government Operations.

(See the remarks of Mr. KENNEDY when he introduced the above bill, which appear under a separate heading.)

By Mr. KENNEDY:

S. 3898. A bill for the relief of Lloyd C. King; to the Committee on the Judiciary.

By Mr. SCHOEPPEL:

S. 3899. A bill to provide for the conveyance of certain mineral rights to Barney B. Bryant of Topeka, Kans.; to the Committee on Interior and Insular Affairs.

S. 3900. A bill for the relief of Jalal Besharat; to the Committee on the Judiciary.

By Mr. DANIEL (for himself, Mr. O'MAHONEY, Mr. EASTLAND, Mr. WELKER, Mr. BUTLER, and Mr. NEELY):

S. 3901. A bill to amend certain laws affecting the control of narcotics in the District of Columbia, and for other purposes; to the Committee on the District of Columbia.

(See the remarks of Mr. DANIEL when he introduced the above bill, which appear under a separate heading.)

By Mr. DANIEL:

S. 3902. A bill for the relief of Andres Amadeo Macha; to the Committee on the Judiciary.

By Mr. ELLENDER (by request):

S. 3903. A bill to amend the Agricultural Trade Development and Assistance Act of 1954, as amended, so as to increase the amount authorized to be appropriated for purposes of title I of the act, and for other purposes; to the Committee on Agriculture and Forestry.

RESEARCH AND DEVELOPMENT PROGRAM FOR COAL

Mr. DIRKSEN submitted the following resolution (S. Res. 269), which was referred to the Committee on Interior and Insular Affairs:

Resolved, That the Committee on Interior and Insular Affairs, or any duly authorized subcommittee thereof, is authorized to conduct a full and complete study and investigation for the purpose of determining—

(1) whether or not there is a possibility of developing under existing law a cooperative research venture in which the Federal Government, interested and affected State governments, industry, labor organizations, and private corporations might participate;

(2) what part the various departments or agencies of the Federal Government might play in such a research and development program for coal and how the Federal and State governments might best cooperate in such a program;

(3) whether or not an effective research program for coal might be developed in the same magnitude and on the same general organizational basis as the various research programs which have been and are now being conducted by the Atomic Energy Commission, the National Advisory Committee for Aeronautics, the National Science Foundation, and other similar groups;

(4) which fields such a research program for coal should include in order to accomplish the best and most expeditious results for an economic revival of the bituminous coal industry, including but not limited to, the general categories of coal production, coal transportation, coal distribution (including market studies and other matters relating to distribution), coal utilization in conventional forms, development of new and expanded uses of coal, gasification, chemical production, and a general appraisal of all coal technology;

(5) what progress has heretofore been made in the production of synthetic liquid fuel in the overall energy program and what advances in our present knowledge and skills with respect to the production of synthetic liquid fuel may be reasonably anticipated in the future; and

(6) whether the public interest would be served by the construction of an experimental plant for the conversion of coal into a synthetic fuel to permit more rapid development of techniques for the production of synthetic liquid fuels.

SEC. 2. The committee shall report its findings, together with such recommendations as it may deem advisable, to the Senate at the earliest practicable date during the present Congress.

SEC. 3. For the purposes of this resolution, the committee, or any duly authorized subcommittee thereof, is authorized to employ upon a temporary basis such technical, clerical, and other assistants as it deems advisable. The expenses of the committee under this resolution, which shall not exceed $, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the committee.

REVISION OF GOVERNMENT APPROPRIATION, BUDGETING, AND ACCOUNTING PROCESSES

Mr. KENNEDY. Mr. President, I am about to introduce a bill, and I ask unanimous consent that I may speak on it in excess of the 2 minutes allowed under the order which has been entered.

The ACTING PRESIDENT pro tempore. Is there objection to the request of the Senator from Massachusetts? The Chair hears none, and the Senator from Massachusetts may proceed.

Mr. KENNEDY. Mr. President, on behalf of myself and Senators PAYNE, BYRD, SMITH of Maine, BRIDGES, MCCLELLAN, JACKSON, HUMPHREY, MCCARTHY, MUNDT, BENDER, MARTIN of Iowa, WELKER, CHAVEZ, HRUSKA, BUSH, FLANDERS, IVES, THYE, MAGNUSON, SALTONSTALL, BUTLER, MARTIN of Pennsylvania, DIRKSEN, BENNETT, CURTIS, SMITH of New Jersey, BEALL, MANSFIELD, CASE of South Dakota, and LANGER I introduce for appropriate reference a bill to revise the Government's appropriation, budgeting, and accounting process.

This bill, which has received vigorous bipartisan support, implements recommendations of the Hoover Commission on budgeting and accounting. In effect, this bill would place the entire governmental financial structure on an annual accrued expenditures basis, as opposed to the obligations system now in operation. This is a revolutionary change in our appropriations process which is being proposed only after the most careful consideration and deliberation. It would permit a much closer supervision by Congress over the expenditures of the executive branch of the Government and would provide for the top management of the executive branch a more complete and more meaningful understanding of the financial operations of the Government. Almost all major private corporations have adopted this system of budgetary control and the Hoover Commission's report substantiated by a comprehensive review by the important fiscal departments and agencies in the Government indicates that this system can profitably and effectively be adopted by the Federal Government. It is evident that a change of this nature cannot be made instantaneously but that considerable time and effort will be necessary to place this system into operation—possibly agency by agency over a number of years.

The President in his message to Congress of May 10, House Document No. 401, indicated that the executive branch of the Government planned to put into operation those portions of the Hoover Commission recommendations on this subject capable of being implemented by administrative action. The bill that we have introduced today provides the legislation necessary to permit the Government to convert to the accrued expenditure basis.

The heart of this change in procedure is the provision of the bill authorizing appropriations to be made on the basis of expenditures actually made or accrued by the various departments and agencies during any single fiscal year. Thus we will no longer see the departments and agencies rushing to obligate their unused funds as the end of the fiscal year approaches. Nor will the Congress appropriate money for fiscal year 1957 which is to be used in 1958, 1959, or 1960. The amount appropriated for each fiscal year will equal the estimate of the expenditures actually to be made or accrued during that year. This bill does not affect the right of agencies to contract for expenditures in future fiscal years—they simply will follow the existing requirement that advance approval be obtained from the Appropriations Committees. It will, however, be necessary for the agency to justify in

the annual budget that portion of any long-term contract which accrues in the fiscal year, thereby providing Congress with an annual review of each agency's program and financial activities.

In order to enable Congress to appropriate on this basis, it will be necessary for the agencies to use accrual accounting and to submit budgets on an accrued expenditures basis. Thus the bill authorizes these changes to be made in the Government's budget and accounting processes.

Hearings were held last March by the Reorganization Subcommittee on a bill incorporating some of the features of the bill introduced today. At that time there was general approval of the basic goal of the Hoover Commission recommendations and subsequently the General Accounting Office in cooperation with the Department of the Treasury and the Bureau of the Budget and staff members of the Senate Government Operations Committee drafted the bill which is being introduced today. Drafts of this bill have been distributed to all of the departments and major agencies of the Government and it is the intention of the Reorganization Subcommittee to hold additional hearings on this important legislation beginning June 4.

The Task Force on Budgeting and Accounting of the Hoover Commission, headed by Mr. J. Harold Stewart, of Boston, one of the Nation's foremost accountants, estimated that if the recommendations of the Hoover Commission on budgeting and accounting, of which this bill is by far the most important feature, were adopted the annual savings to the Government would be signicant. I am sure it would be difficult to defend such an estimate, but I am convinced from my own study of this subject that there would be substantial savings to the American taxpayer as a result of this important change in our fiscal process. Equally important would be the better understanding that the executive branch and the Congress would have of the programs and financial operations of the whole Government.

Mr. President, I ask unanimous consent that the bill be permitted to lie on the table for 3 days so that other Senators who wish to may join in sponsorship, and that the bill be printed in the RECORD at this point.

The ACTING PRESIDENT pro tempore. The bill will be received and appropriately referred; and, without objection, the bill will be printed in the RECORD.

The bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, introduced by Mr. KENNEDY (for himself and other Senators), was received, read twice by its title, referred to the Committee on Government Operations, and ordered to be printed in the RECORD, as follows:

Be it enacted, etc.—

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting "(a)" after the words "SEC. 201."; by changing subsection (a) to subparagraph (1); by adding after subparagraph (1) a new subparagraph "(2) at such times as may be practicable, information on program costs and accomplishments"; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively; and by adding the following new subsections:

"(b) The amounts of proposed appropriations referred to in sections 201 (a) and 203 of this act shall, to the maximum extent deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis.

"'Annual accrued expenditures' shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

"This subsection shall not apply to appropriations made specifically for the payment of claims certified by the Comptroller General and of judgments; appropriations for the refund of Federal taxes and of other moneys erroneously received and covered into the Treasury of the United States; appropriations made by private relief acts of Congress; appropriations for the payment of interest on trust funds; revolving funds or appropriations thereto; appropriations for the payment to former members of the Armed Forces, their dependents and beneficiaries, of any benefits to which they are entitled by reason of military service; appropriations for the payment of pensions and annuities; appropriations for the payment of any obligation of the United States for which liability is fixed by treaty; and other appropriations or funds analogous to the foregoing.

"(c) The conversion to the use of annual accrued expenditures for stating proposed appropriations in accordance with section 201 (b) of this act shall be accomplished in such manner and at such times as may be determined by the President.

"(d) As of the end of each fiscal year, the excess of any appropriation or fund made on an annual accrued expenditure basis over the accrued expenditures under such appropriation or fund shall lapse, unless hereafter provided otherwise in an appropriation act or other law. Any remaining balances of each such appropriation or fund shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year and shall constitute a single account."

(b) Section 216 of such act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216" and by adding the following new subsections:

"(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets.

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2 (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATIONS

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency on accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

(b) Section 113 of such act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such act is amended by inserting "113 (c)" after the words "section 111."

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 2. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

Mr. KENNEDY. In addition, at this time I should like to pay tribute and express the thanks of the Subcommittee on Reorganization to the Senator from Maine [Mr. PAYNE], who did a tremendous amount of work on this subject, and whose testimony before our committee was invaluable. He is a cosponsor of the bill which we are introducing. I note that he is now present in the Chamber.

Mr. PAYNE. Mr. President, will the Senator yield?

Mr. KENNEDY. I yield.

Mr. PAYNE. I rise at this time to pay a word of well-deserved tribute to the junior Senator from Massachusetts [Mr. KENNEDY] for the great interest he has taken in this very vital subject. As I have stated on previous occasions, it is a subject which is not too glamorous, but it certainly means a great deal in the final analysis in putting our fiscal house in order.

Without the prodigious labors of the junior Senator from Massachusetts, the members of his staff, and other members of the subcommittee of the Government Operations Committee in connection with this problem, it would have been impossible to bring the proposed legislation to the point where there is some hope of obtaining action by the Congress this year to put into effect something which has been needed for a long time in order to place our accounting and budgeting processes on an orderly basis.

I ask unanimous consent that a statement which I have prepared in this connection be printed in the RECORD at this point as a part of my remarks.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR PAYNE

My distinguished colleague, the junior Senator from Massachusetts [Mr. KENNEDY], has just introduced a bill, which I am co-

sponsoring, which will carry out the major recommendations of the Second Hoover Commission Report on Budget and Accounting. Taken with the recent action of the President when he approved the adoption by the Bureau of the Budget of several of the Hoover Commission recommendations, this bill will result in implementation of substantially all of the Hoover Commission's budget and accounting recommendations. If the bill introduced today is passed, the net result will be a vastly improved financial structure for our Federal Government.

This fiscal procedures measure is the successor to S. 3199, which I introduced on February 14 in behalf of myself and 21 of my distinguished colleagues. S. 3199 was designed to carry out the majority of the Hoover Commission budget and accounting recommendations and included several which could be implemented by executive action, but which at that time had not been adopted. The bill did not include what is probably the most important of the 25 recommendations of the Hoover Commission in this field, namely, that the President's budget and congressional appropriations be stated in terms of annual accrued expenditures rather than in terms of obligational authority as at the present time. Basically, this provision would mean that Congress would only appropriate funds for 1 year even for long lead time programs. It would restore much of the control of the purse to Congress that has been lost under the present system of appropriating the total amount in advance for a program that will not be completed for several years.

Although I am wholly in favor of Recommendation No. 7 of the Hoover Commission Report on Budget and Accounting, I purposely did not include it in S. 3199 because I felt that it might be necessary to lay a foundation of sound fiscal reporting before attempting such an important change. It was my hope that the committee in holding hearings on the bill would give careful consideration to including this provision in the bill. On March 21, the Reorganization Subcommittee of the Senate Government Operations Committee, under the very able leadership of the junior Senator from Massachusetts [Mr. KENNEDY], started hearings on S. 3199. In my statement as the first witness before the subcommittee I strongly urged that testimony be heard on the feasibility of adopting the annual accrued expenditure provision at this time, and that the subcommittee give careful attention to the desirability of including the provision. Following my statement, the General Accounting Office and the Bureau of the Budget testified substantially in favor of the bill, but both wanted the annual accrued expenditure provision included. After several days of hearings, the chairman of the subcommittee [Mr. KENNEDY] directed the staff to work with the two agencies on an amendment to S. 3199 to include the recommendation.

Shortly after the hearings, the Director of the Bureau of the Budget announced that several of the Hoover budget and accounting recommendations had been adopted, some of which were included in S. 3199. Therefore, instead of preparing an amendment to S. 3199 a new bill was drafted and has been introduced today.

The subject of accounting lacks the glamor of many other topics, but it is no less important. As an accountant with experience in business and in government at both the State and Federal level, I can and do fully endorse the steps that have been taken by the Bureau of the Budget to carry out the intent of the second Hoover Commission. However, unless Congress acts favorably on the bill which has just been introduced only about half of the job will have been done. As all of us know, it would be a rare instance when a job half done could achieve anywhere near half of the effectiveness of the whole job, and the case at hand in no exception.

Without overstating the case, I believe I can say that the bill which has been introduced today, as unglamorous as it may be, is one of the most important pieces of legislation before this Congress. In his message to Congress dated May 10, 1956, President Eisenhower stated:

"The actions being taken by the executive branch to put many of the [Hoover] Commission's proposals [budget and accounting recommendations] into effect will require close coordination with the legislative branch and merit the support which the Congress should and can provide. I urge that the Congress seek the early enactment of appropriate legislative provisions to support the major objectives of the [HOOVER] Commission's recommendations."

The Hoover Commission Task Force on Budget and Accounting estimated that the savings which could be expected to result from effective implementation of its recommendations would be in the vicinity of $4 billion. Obviously this is a figure that cannot be fully substantiated, but it clearly indicates that improved fiscal performance can mean very large savings to the Nation. It is my hope that Congress will not adjourn without having taken action on this legislation.

CONVEYANCE OF CERTAIN PROPERTY TO PIERCE COUNTY, WASHINGTON—AMENDMENT

Mr. MORSE submitted an amendment, intended to be proposed by him, to the bill (S. 3457) to authorize the Secretary of the Treasury to convey certain property to the county of Pierce, State of Washington, which was ordered to lie on the table and to be printed.

FEDERAL-AID HIGHWAY ACT OF 1956—AMENDMENTS

Mrs. SMITH of Maine. Mr. President, for 6 months I have been driving for a governmental study of means of increasing highway safety in our country. I have made specific appeals to the President of the United States and to the Senate Committee on Labor and Public Welfare. President Eisenhower has responded favorably, but the Senate committee has not responded at all. I made an appeal to the Senate Public Works Committee but received no response.

I am at a loss as to the thus far senatorial indifference to this matter—an indifference to a tragic and alarming condition—the annual tragedy of nearly 40,000 deaths, a million injuries and a multibillion-dollar economic loss caused by automotive accidents. In a nutshell, it is a matter of mass murder and maiming on the highway—to which there is an alarming and shocking degree of complacency.

At the very beginning of this session, on January 5, 1956, I introduced Senate Resolution 156 to investigate methods of increasing highway safety in the United States and to have the Senate Labor and Public Welfare Committee make such study. That resolution was referred to the Senate Labor and Public Welfare Committee and I regret to say that as of this time that committee has not given any consideration to this important proposal.

In recent weeks representatives of the Advisory Council to the President's Committee for Traffic Safety have conferred with me and asked me, because of the leadership I have taken in this matter, to take the lead in attempting to get an amendment unsuccessfully offered by Representative BLATNIK to the highway bill when the House recently voted on that bill—to get such an amendment adopted by the Senate when it considers and votes on the highway bill.

I agreed to do so but not until May 16, 1956 did they finally come up with the type of amendment they recommended be offered instead of the form of the Blatnik amendment. On that day they also talked with other Senators including the distinguished junior Senator from Minnesota who shortly thereafter that day took the Senate floor and submitted the proposed brief amendment.

I wish to commend the junior Senator from Minnesota in his very prompt action and I welcome him to the drive that I have now been making for several months. I am gratified that his response was not only so favorable in contrast to the past lack of response from the Senate committees I have referred to but also with the very marked promptness of his response.

His amendment is desirable but I am not joining on it as I feel that I prefer an amendment in the form modeled after my Senate Resolution 156. If the Senate is not to look into this matter, then I would hope that the executive branch of the Government would.

And so I have taken the language of Senate Resolution 156 and merely substituted the Secretary of Commerce for the Senate Committee on Labor and Public Welfare. In spite of this I hope the Senate committee will still see fit to look into this matter and certainly no harm or loss can come from both the Secretary of Commerce and the Senate looking into the ways of saving human lives and stopping wholesale slaughter on the highways.

The objective of the proposed amendment of the junior Senator from Minnesota and the objective of my proposed amendment are basically the same. However, there are some basic differences.

In the first place I would require the Secretary of Commerce to report 2 years sooner than the junior Senator of Minnesota would. I would require a report in not less than a year and by not later than June 30, 1957, while the junior Senator from Minnesota would allow 3 years and permit the report to be made by June 30, 1959.

I differ on the time aspect because, while I acknowledge that studies sometimes take a great deal of time, all of us realize that a study or a survey can sometimes be the means of brushing something aside and letting the mere operation of time kill it.

I do not want that to happen on this because I consider this matter to be extremely urgent with nearly 40,000 people being killed on the highway each year—at that rate the total in 3 years would be 120,000.

Time is of the essence. This cannot be a leisurely, take-your-time ap-

H. R. 11526

A BILL

84TH CONGRESS
2D SESSION

H. R. 11526

IN THE HOUSE OF REPRESENTATIVES

MAY 29, 1956

Mr. ROGERS of Florida introduced the following bill; which was referred to the Committee on Government Operations

A BILL

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921
4 SECTION 1. (a) Section 201 of the Budget and Ac-
5 counting Act, 1921, as amended (31 U. S. C. 11), is fur-
6 ther amended by inserting "(a)" after the words "SEC.
7 201.", by changing subsection (a) to subparagraph (1);
8 by adding after subparagraph (1) a new subparagraph
9 "(2) at such times as may be practicable, information on
10 program costs and accomplishments"; by changing subsec-

1 tions (b) through (j) to subparagraphs (3) through (11),
2 respectively; and by adding the following new subsections:
3 "(b) The amounts of proposed appropriations referred
4 to in sections 201 (a) and 203 of this Act shall, to the
5 maximum extent deemed desirable and practicable by the
6 President, be determined on an annual accrued expenditure
7 basis.
8 " 'Annual accrued expenditures' shall relate to goods and
9 services to be received in a fiscal year, advance payments,
10 progress payments, and such other payments as are author-
11 ized by law to be made in such fiscal year.
12 "This subsection shall not apply to appropriations made
13 specifically for the payment of claims certified by the Comp-
14 troller General and of judgments; appropriations for the
15 refund of Federal taxes and of other moneys erroneously
16 received and covered into the Treasury of the United States;
17 appropriations made by private relief Acts of Congress;
18 appropriations for the payment of interest on trust funds;
19 revolving funds or appropriations thereto; appropriations
20 for the payment to former members of the Armed Forces,
21 their dependents and beneficiaries, of any benefits to which
22 they are entitled by reason of military service; appropriations
23 for the payment of pensions and annuities; appropriations for
24 the payment of any obligation of the United States for which

1 liability is fixed by treaty; and other appropriations or funds
2 analogous to the foregoing.
3 "(c) The conversion to the use of annual accrued ex-
4 penditures for stating proposed appropriations in accordance
5 with section 201 (b) of this Act shall be accomplished in
6 such manner and at such times as may be determined by
7 the President.
8 "(d) As of the end of each fiscal year, the excess of
9 any appropriation or fund made on an annual accrued ex-
10 penditure basis over the accrued expenditures under such
11 appropriation or fund shall lapse, unless hereafter provided
12 otherwise in an appropriation Act or other law. Any re-
13 maining balances of each such appropriation or fund shall
14 be merged with any appropriation or fund made for the
15 same general purpose for the ensuing fiscal year and shall
16 constitute a single account."
17 (b) Section 216 of such Act, as amended (31 U. S. C.
18 24), is further amended by inserting "(a)" after the words
19 "SEC. 216." and by adding the following new subsections:
20 "(b) The requests of the departments and establish-
21 ments for appropriations shall, in such manner and at such
22 times as may be determined by the President, be developed
23 from cost-based budgets.
24 "(c) For purposes of adminisration and operation, such
25 cost-based budgets shall be used by all departments and

1 establishments and their subordinate units. Adminisrative
2 subdivisions of appropriations or funds shall be made on the
3 basis of such cost-based budgets."

4 AMENDMENTS TO THE BUDGET AND ACCOUNTING
5 PROCEDURES ACT OF 1950

6 SEC. 2. (a) The Budget and Accounting Procedures
7 Act of 1950 is amended by inserting after section 105
8 thereof the following new section:

9 "ACCOUNTING AND BUDGET CLASSIFICATIONS

10 "SEC. 106. The head of each executive agency shall,
11 in consultation with the Director of the Bureau of the
12 Budget, take whatever action may be necessary to achieve,
13 insofar as is possible, (1) consistency on accounting and
14 budget classifications, (2) synchonization between account-
15 ing and budget classifications and organizational structure,
16 and (3) support of the budget justifications by information
17 on performance and program costs by organizational units."

18 (b) Section 113 of such Act (31 U. S. C. 66a) is
19 amended by adding at the end thereof the following new
20 subsection:

21 "(c) As soon as practicable after the date of enactment
22 of this subsection, the head of each executive agency shall,
23 in accordance with principles and standards prescribed by
24 the Comptroller General, cause the accounts of such agency
25 to be maintained on an accrual basis to show the resources,

1 liabilities, and costs of operations of such agency with a view
2 to facilitating the preparation of cost-based budgets as re-
3 quired by section 216 of the Budget and Accounting Act,
4 1921, as amended. The accounting system required by
5 this subsection shall include adequate monetary property
6 accounting records as an integral part of the system."
7 (c) Section 118 of such Act is amended by inserting
8 "113 (c)" after the words "section 111".

9 SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

10 SEC. 3. Section 3679 (g), Revised Statutes, as amended
11 (31 U. S. C. 665 (g)), is further amended by adding at
12 the end thereof the following sentence: "In order to have
13 a simplified system for the administrative subdivision of
14 appropriations or funds, each agency shall work toward the
15 objective of financing each operating unit, at the highest
16 practical level, from not more than one administrative sub-
17 division for each appropriation or fund affecting such unit."

84TH CONGRESS
2D SESSION

H. R. 11526

A BILL

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

By Mr. ROGERS of Florida

MAY 29, 1956

Referred to the Committee on Government Operations

ernment out of many of the businesses with which it had occupied itself in competition with free enterprise. There are those in this country who will disagree with that effort. They are the ones who believe the Federal Government can perform our economic chores better than can free enterprise.

For such people I advocate a careful reading of an article entitled "What Government Ownership Does to Workers," published in U. S. News & World Report of May 25, 1956.

I ask unanimous consent that the article be printed in the Appendix of the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

WHAT GOVERNMENT OWNERSHIP DOES TO WORKERS—MINES LOSE MONEY, 1,000 WELSH MINERS THROWN OUT OF JOBS

GWAUN-CAE-GURWEN, WALES.—This village of 4,000 in the coalfields of South Wales is doomed because of its failure to cooperate with the managers of Britain's socialized coal industry.

The National Coal Board over in London, the agency which runs Britain's coal mines, has anounced that on May 26 it will close down for good two mines that lie on the outskirts of this hillside town. The board says that the frequency of strikes and slowdowns at the two mines makes it impossible to run them on anywhere near an economic basis.

When the mines are closed, the machinery dismantled and taken away, more than 1,000 miners will be out of jobs. For all practical purposes, the village of Gwaun-Cae-Gurwen will cease to exist economically.

Seventy-five percent of the miners who work at the condemned East and Steer collieries live in this village. When the mines close down, these families will have to go elsewhere. There is nothing for the men to do here if they can't mine coal.

CRITICISM OF MINERS

Except in Gwaun-Cae-Gurwen itself you find little sympathy for the miners.

The coal board condemns what it calls the miners' lack of cooperation and their refusal to keep output high enough to justify continued operation of the two mines.

The miners' union—the National Union of Mineworkers—finds fault with the men for striking without union authorization.

But, if you walk the streets of Gwaun-Cae-Gurwen or talk with people at random near the mines, you come up with a story of trouble in labor relations—a story that stretches back to January 1, 1947—the day Britain nationalized her coal mines—and back into the days when the mines were privately owned.

"The men just don't seem to have any confidence in the coal board," said a village official. "Most of this trouble has come since nationalization. The men think it's a lot harder to get anywhere with the officials now than it used to be. The trouble in the pits is certainly a lot worse now."

The anger felt by the workers toward the coal board and its local representatives was expressed by one miner in these words, "Why pick on us? There are worse troubles at other pits in Wales and England, but they don't close them."

There is the complaint, too, that everything is "too top heavy" in the coal board's operations. It doesn't do any good to talk to officials at the mine, one miner said, "because they have to go all the way to London to find out what they can do."

TOO MUCH DISEASE?

You also hear complaints about the narrow seams of anthracite and how hard they are to work, and about the incidence of silicosis and pneumoconiosis, which are lung diseases caused by habitual inhaling of such impurities as coal dust. If you remind the miners that the incidence of pneumoconiosis has fallen 60 percent in 2 years because of improved methods of dust control, you get this answer:

"You look at a miner's face when he comes up. It's black with dust. His lungs have got to be the same way because he's breathing that dust all day at the coal face."

At the East and Steer pits you hear the coal board called "spiteful" because it has refused to open the brick bathhouses it constructed for the men to use when they come up from the pits.

These bathhouses are the most modern structures at the mines. One was built at a cost of $84,000; the other cost twice as much. They stand out in contrast to the dinginess of the other mine buildings. The board keeps them closed because it says it would have to spend $28,000 a year to maintain them and the expense cannot be justified in view of the heavy losses incurred in operating the East and Steer pits.

Some people here have a feeling that the coal board will back down and keep the mines open; that it cannot afford to lose this anthracite. The miners at a meeting last week endorsed a union resolution urging them to work harder in order to prove to the board that it would be worthwhile to keep the mines open.

The board, however, remains adamant. It says that it is not bluffing; that the mines will close down.

STRIKES AND SLOWDOWNS

The board says it is losing the equivalent of more than a million dollars a year by operating the East and Steer pits. There were 47 strikes and slowdowns at the 2 mines in 1955. So far this year there have been 11.

The board maintains it lost during 1955 about $900 for every man employed at the East pit and $1,100 for each man working at Steer. It claims that output per man-shift—the measuring stick for economic operation of British mines—is only 7.4 hundredweights at Steer and 9.2 at East, as against an average of 19 for the South Wales division as a whole.

Actually there have been 249 strikes and slowdowns—all unofficial, unauthorized by the union—since these two mines were nationalized in 1947. The advent of government ownership at the East and Steer pits brought an immediate increase in labor troubles, rather than any improvement.

In 1948, 1 year after the government took over the mines, both East and Steer pits were closed by the coal board on the charge that the miners engaged in too many restrictive practices. Later on, Steer pit was closed for a year and a half. The board reopened both mines after it got a promise of cooperation from the miners.

In May of last year the board dismissed 149 miners at the two pits because, it said, output was too low. Output averaged 4,000 tons a week, but the board said it should have been 6,000 tons.

The current complaint against the miners at Steer and East pits, as seen by the coal board, is based on "the continued restriction of effort, lack of cooperation by the workmen, and low productivity resulting in serious financial loss." The board complains that the miners failed to keep their promises to "cooperate with the management and carry out their allotted tasks."

The coal board also says: "The men at the pits have not honored agreements made on their behalf nor have they followed the advice of their union. They have not made use of the conciliation machinery."

After "repeated trials over a period of nearly 10 years," the coal board says, the officials see no signs of improvement at Steer and East pits.

All the troubles came to a head this month when both pits went out on strike for 2 weeks because 2 men were fired for slowing down on the job. Ten other pits in the area, with a total of 3,800 miners, went out in sympathy with East and Steer. The other mines went back to work after a union decision urging them to do so. The men at East and Steer remained out 3 days longer.

This history of labor trouble at these two mines results from what the Times of London calls "a process of mutual exasperation" between the miners and the coal board.

As you talk with them, you deduce that the miners at East and Steer pits are not satisfied that government ownership of the mines is the best way to bring good labor relations.

MINERS STILL VOTE "LEFT"

But, although the miners at Gwaun-Cae-Gurwen voice nothing but scorn for the National Coal Board, they vote solidly for the Labor Party in national elections.

You hear that quite a few of the miners are Communists. The president of the south Wales area of the National Miners Union, Will Paynter, is an avowed Communist. Paynter, however, is one of the most caustic critics of the miners' conduct at East and Steer pits.

The anthracite fields in south Wales are Britain's only source of hard coal except for limited supplies in Scotland. The coal that comes out of the East and Steer pits—locally called "the best coal in the world"—is valuable to the British economy as a source of dollar income from Canada.

Yet the anthracite fields are operated under nationalization at heavy losses. The coal board showed a loss of 3.7 million pounds sterling for its southwestern division in 1955 compared with a loss of 1.8 million pounds in 1954. Operations in the anthracite fields of south Wales accounted for 3.4 million pounds of the 1955 loss.

Most of the loss stems from the inability of the board to keep the miners digging enough coal.

PROFITS TO LOSSES

In 1939, under private ownership, output of the south Wales coalfields stood at 273 tons per man per year. The owners that year realized profits of 1.5 million pounds.

In 1955, output per man per year had dropped to 230 tons, and the nationalized mines were operating at heavy losses.

As one observer puts it, "The Welsh miners said that with profits taken away and sacking the owners you would get more coal and cheaper coal and that they would be happy doing it." So far, it hasn't worked out that way.

In Gwaun-Cae-Gurwen, you don't hear much discussion of statistics like those. There is no other employment in the village. The families here are absolutely dependent on the two mines.

The coal board is sinking a new shaft a few miles away, and it hopes to tap the seams mined at the East and Steer pits from this new mine. But it will be 2 or 3 years before the new mine is ready for full operation.

Meanwhile, if the East and Steer pits close, some of the miners hope to find work in the steel mills at Port Talbot, down on the seacoast. Others expect to go to England, where industrial jobs can be had for the asking.

The coal board says that it is not blacklisting these men, although other mines in the area won't be able to absorb half of them.

A GROWING FEAR

In the gray rows of miners' homes along the streets of Gwaun-Cae-Gurwen, you can find an atmosphere of rising fears that this time the coal board means what it says, of fears that families will have to be uprooted and moved away.

Out at the mines you sense frustration and bitterness in the remarks of the miners, when they talk about the National Coal

Board. For these miners—whether they are at fault or not—the fact that the Government is their boss has not so far meant a sense of participation and belonging. This was among the things they were trying to achieve when they threw out the private owners and nationalized the mines.

Revision of Government Appropriation, Budgeting, and Accounting Processes

EXTENSION OF REMARKS

OF

HON. PAUL G. ROGERS

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 29, 1956

Mr. ROGERS of Florida. Mr. Speaker, I have introduced today legislation which I believe is a necessary step and long overdue to place our governmental accounting and budgeting processes on a more realistic and orderly basis. As I am sure most Members realize, we have a backlog of unexpended authorizations in the amount of almost $80 billion and I think all of us realize the lack of control that this situation brings about. I had been working on provisions to incorporate in legislation to present to the House for consideration when a bill was introduced in the Senate, being S. 3897, which incorporates proposals to bring about some necessary reforms as suggested by the Second Hoover Commission and which has strong bipartisan support in the Senate. I have introduced a companion bill to the Senate bill today.

It is estimated by the Second Hoover Commission that the reforms suggested and as set forth in this legislation could effect savings in the amount of almost $4 billion. This figure is perhaps hard to fully substantiate but at least it gives a very dramatic evidence of the great savings that can be effected in our Government by the enactment of this legislation.

It is my strong feeling that the House should consider this legislation at the earliest possible time and I am respectfully asking for a hearing before the House Government Operations Committee on the provisions of this measure which I believe are sound and should be enacted by the Congress.

This measure proposes changes in executive branch accounting and formulation of budget requests for appropriations, and it proposes changes in congressional authorization of the expenditure of money on Federal programs. It would place the entire governmental financial structure on an annual accrued expenditures basis, as opposed to the obligations system now in operation. It would permit a much closer supervision by Congress over the expenditures of the executive branch of the Government and would provide for the top management of the executive branch a more complete and more meaningful understanding of the financial operations of the Government. Almost all major private corporations have adopted this system of budgetary control, and the Hoover Commission's report indicates that this system can profitably and effectively be adopted by the Federal Government.

The changes which are proposed are generally stated in "where and as practicable" terms. They are not of as much consequence to agencies which spend money primarily for administrative and operating purposes such as employee services, travel, rents, utilities bills; and which now are granted appropriations that remain available for incurring obligations only during a specified fiscal year. The changes are more substantial for agencies that are engaged in construction or purchase of equipment in large volume, and which require appropriations to be available for obligation over a period that is longer than 1 fiscal year.

For the latter sort of Department or agency, the bill would introduce practices that are essentially different from those now followed. Money would be provided by Congress only for 1 year's accrued expenditures; contracts for work in excess of 1 year would be authorized, but the money would not be provided for more than 1 year at a time. At the present, the contract authorization is little used, and money is appropriated for incurring obligations not only in 1 year but over a greater period the duration of which may be either definite—multiple-year—or indefinite—no-year.

Two differences are to be noted: a proposed one-year-at-a-time appropriation, contrasted with multiple or indefinite years; and appropriation for accrued expenditures rather than obligations. As implied in the remarks of an earlier paragraph, accrued expenditures and obligations incurred do not differ for some important objects, such as employees' services, travel, and communication, utilities bills, rents, interest, pensions, claims, investments. But accrued expenditures do differ from obligations incurred for lands and structures, equipment, supplies and materials, grants, subsidies and contributions. Expenditures accrue when goods and services are received, or generally, when title passes to the Government. Accrual includes the occasions when performance on a contract is accepted for the purpose of progress payments that are made before the completion of the entire job. Obligations are incurred, on the other hand, when orders are placed and contracts are awarded. The accrual of expenditures differs from the incurral of obligations, when it differs at all, in coming at a later point in the process of the Government's procurement.

The significance of the difference between expenditures and obligations is this: If appropriations are limited to the year's accrued expenditures rather than to authority to obligate—whether or not obligations are incurred—then the Congress keeps much shorter the time that elapses between its authorization of the expenditure of funds and the actual expenditure of the funds. The process of review of accomplishments is made more immediate.

The bill requires that appropriation requests be in terms of accrued expenditures. It requires also that requests be built up from accounts of costs, and that measurements of performance be shown. These requirements are consistent with making appropriations in terms of accrued expenditures, but costs may diverge from expenditures. If the costs incurred in the year, rather than the obligations incurred, are summarized in building up appropriation requests, accounts of such assets as inventories and of fixed properties will be needed. These assets may be used and so become costs in years additional to, or other than, that in which they are purchased. The actual cost of getting the benefits of the Government's programs can be ascertained only if cost accounts which reflect changes in inventories, depreciation, and so on are developed.

Question for Mr. Nixon—The Murray M. Chotiner-White House Influence Case

EXTENSION OF REMARKS

OF

HON. MELVIN PRICE

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Monday, May 21, 1956

Mr. PRICE. Mr. Speaker, I am introducing an editorial from the St. Louis Post-Dispatch referring to a high public officer. Let us not forget that this high public officer is now the Vice President of the United States and the heir presumptive to the office of the Presidency itself.

Let us not forget that this official, having "charted his course," is now running for the Vice Presidency again with the blessings of General Eisenhower.

Under leave to extend and revise my remarks, I offer the editorial from the St. Louis Post-Dispatch:

QUESTION FOR MR. NIXON

Senate investigators are resuming their inquiry into the Washington affairs of Murray M. Chotiner, who was Vice President NIXON's campaign manager. They are especially interested in the fact that a convicted jury tamperer got Mr. Chotiner four clients who were involved in cases with the Government.

And there we have said it again. Mr. Chotiner was Mr. NIXON's campaign manager. Is this "guilt by association"? Mr. NIXON's defenders are asking. Mr. Chotiner managed the Nixon campaigns, of course, but he also managed campaigns for Earl Warren, now Chief Justice, and others. Why pick on Mr. NIXON?

The answer is plain and the Nixon ranks surely know it. By taking a high moral position on influence cases in one party and keeping remarkably silent on a similar case closer to home, the knight errant of 1951 has assumed the position of a sitting duck.

For example, in 1951 William M. Boyle denied that he had used his influence with the Democratic National Committee to introduce private clients to the RFC. Senator NIXON said then: "The very fact that the introduction comes from the National Committee * * * constitutes influence."

That same year Senator NIXON was highly dissatisfied with the Boyle investigation and said: "This inquiry has too many loose ends to call it closed, and I think we'll have to resume hearings."

The statements which Senator NIXON made then are exactly applicable to the Chotiner case today. For Mr. Chotiner also stands high in his party's leadership and also arranged contacts (through White House as-

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued June 8, 1956
For actions of June 7, 1956
84th-2nd, No. 94

CONTENTS

HIGHLIGHTS: House debated foreign aid bill. House concurred in Senate amendments to general Government matters appropriation bill. Ready for President. House Committee submitted report on REA and Interior power policies. Senate committee reported bills to authorize USDA land exchanges with Defense, continue ACP, pay expenses of soil-water conservation advisory committee, authorize feeding of CCC grain to waterfowl, amend penal provision of CCC Charter Act, repeal FFMC authority to issue bonds, approve inter state forest fire compact, eliminate requirement for notice of animal quarantine, require census data on class of farm, change date for proclaiming tobacco quota. Senate received nomination of Hamil to REA. Senate committee ordered reported bills to improve budgeting and accounting methods and procedures and to facilitate payment of obligations.

HOUSE

1. FOREIGN AID. Continued debate on H. R. 11356, the mutual security authorization bill. p. 8810

2. APPROPRIATIONS. Concurred in the Senate amendments to H. R. 9536, the general Government matters appropriation bill for 1957. This bill will now be sent to the President. p. 8810

   House conferees were appointed on H. R. 10003, the D. C. appropriation bill for 1957. p. 8854 (Senate conferees were appointed June 5.)

3. FOREIGN TRADE. Both Houses received from the President a report on actions under the Reciprocal Trade Agreements Act (H. Doc. 421); to House Ways and Means Committee and Senate Finance Committee. pp. 8755, 8856

   Rep. Byrd spoke in opposition to the Organization for Trade Cooperation. p. 8857

4. ELECTRIFICATION. The Government Operations Committee submitted a report on the

effect of Interior Department and REA policies on public-power preferred customers (H. Rept. 2279). p. 8862

5. WATER POLLUTION; POSTAL RATES. The Rules Committee reported resolutions for consideration of H. R. 11380, to readjust postal rates, and H. R. 9540, to extend the Water Pollution Control Act. p. 8857

6. PUBLIC LANDS. The Interior and Insular Affairs Committee reported with amendment H. R. 5712, to provide that the U. S. hold in trust for the Pueblos of Zia and Jemez a part of the Ojo del Espiritu Santo Grant and a small area of public domain adjacent thereto (H. Rept. 2281). p. 8862

SENATE

7. AGRICULTURE AND FORESTRY Committee reported the following bills: (p. 8757)

S. 2572, to authorize the interchange of lands between USDA and the Defense Department; without amendment (S. Rept. 2152).

S. 2585, to authorize exchange of a land tract at the Beltsville Research Center (S. Rept. 2155); without amendment.

S. 3120, to continue for 2 additional years Federal administration of the Agricultural Conservation Program; without amendment (S. Rept. 2154).

S. 3314, to authorize payment of expenses of the Advisory Committee on Soil and Water Conservation; without amendment (S. Rept. 2153).

S. 2732, to authorize the Interior Department to obtain CCC grain for feeding to waterfowl to prevent depredations; with amendment (S. Rept. 2156).

S. 3669, to amend the penal provision of the CCC Charter Act (S. Rept. 2157); with amendment.

S. 2530, to repeal the authority of the Federal Farm Mortgage Corporation to issue bonds; with amendments (S. Rept. 2158).

S. 3032, approving the Middle Atlantic interstate forest fire protection compact; with amendments (S. Rept. 2159).

S. 3046, to eliminate the requirement for certain notices of animal quarantine; with amendments (S. Rept. 2160).

S. 3145, to require the Census Bureau to develop farm income data by economic class of farm (S. Rept. 2161); with amendments.

S. 3261, to change the date by which certain tobacco quotas must be announced each year; with amendment (S. Rept. 2151).

S. 3344, to authorize USDA to convey to Alaska certain lands in Sitka known as Baranof Castle site; without amendment (S. Rept. 2150).

8. GOVERNMENT OPERATIONS Committee ordered reported ~~H. R. 7227, to provide for donation of surplus property for civil defense purposes; H. R. 7855, extending temporary authority of GSA to dispose of surplus property by negotiation to July 31, 1958; S. 3362, to simplify accounting and facilitate the payment of obligations;~~ S. 3897, to improve governmental budgeting and accounting methods and procedures; H. R. 10417, to amend the Federal Register Act regarding public proclamations in a period following an attack upon the U. S.; S. 3843, to adjust the application of Sec. 322 of the Economy Act of 1932 to premises leased for Government purposes. p. D587

9. WATER DEVELOPMENT. Sen. Watkins inserted and commended an address by Reclamation Commissioner Dexheimer on the future of multiple-purpose river development. p. 8803

10. NOMINATION. Sen. Watkins commended the nomination of Fred A. Seaton to be Secretary of the Interior and inserted newspaper editorials on this subject. p. 8806

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued June 20, 1956
For actions of June 19, 1956
84th-2nd, No. 101

CONTENTS

HIGHLIGHTS: House received conference report on independent offices appropriation bill. House subcommittee ordered reported bills to authorize crop insurance for Puerto Rico and provide employee exchange between USDA and States. Senate committee reported bill to improve government budgeting and accounting methods and procedures; and Senate made bill unfinished business for consideration today. Senate committee reported mutual security bill. Senate passed bill for exchange of lands between USDA and Defense Dept. Sen. Symington urged emergency drought relief for Mo. Reps. Cooley and Hope introduced bills to provide Great Plains program. Rep. Rees introduced and discussed bill to prevent employment of disloyal persons. Rep. Hull criticized this Department's drought relief program in Mo.

HOUSE

1. APPROPRIATIONS. Received the conference report on H. R. 9739, the independent offices appropriation bill for 1957 (H. Rept. 2396) The conferees agreed to $4,000,000 for civil defense functions of Federal agencies, including USDA (House figure, $1,540,000; Senate, $6,000,000). The $200,000 item for a survey of Government records, records management, and disposal practices was deleted. The conferees eliminated the House language relating to the purchase of typewriters but inserted language requiring that they be purchased in accordance with regulations issued pursuant to the Federal Property and Administrative Services Act. Regarding this provision, the House conferees stated: "The deletion of the typewriter price restriction language is not intended to alter the present prohibition against purchases of typewriting machines by agencies in the executive branch of the Government unless the General Services Administration certifies that suitable typewriting machines are not available from excess." The conferees agreed to the authorization of 11 supergrades in GSA. Various other items, regarding Civil Service Commission, General Services Administration, etc., were compromised. p. 9557

Received from the President supplemental estimates to pay claims for damages, audited claims, and judgments against the U. S. (H. Doc. 426); to the Appropriations Committee. p. 9561

2. CROP INSURANCE; PERSONNEL; LAND TRANSFER. A subcommittee of the Agriculture Committee ordered reported to the full committee H. R. 5275, to extend certain crop reinsurance activities of FCIC to Puerto Rico; H. R. 4987, to permit the exchange of employees of the USDA and employees of State political subdivisions or educational institutions for assignments not to exceed two years in duration; and H. R. 8817, to provide for the conveyance of certain land to the city of Corbin, Ky. p. D646

3. PLANTS. The Judiciary Committee reported without amendment H. R. 11636, to amend Chapter 3 of Title 18, U. S. Code, to provide penalties for the transportation, sale of, or advertising for sale, in interstate commerce, of water hyacinth plants, water chestnut plants, or alligator grass (H. Rept. 2386). p. 9561

4. WATER RESOURCES. Both Houses received from the Budget Bureau reports on the land and water resources of the New England-New York region, prepared by the New England-New York Inter-Agency Committee; and the conservation and development of the water and land resources of the Arkansas-White-Red River Basins, prepared by the Arkansas-White-Red River Basins Inter-Agency Committee; to the Public Works Committee. pp. 9561, 9497

5. PERSONNEL. Received from the Justice Department the report on the administration of the Subversive Activities Control Act of 1950; to the Un-American Activities Committee.

6. LABOR STANDARDS. The Education and Labor Committee ordered reported H. R. 11799, amending the Fair Labor Standards Act relative to minimum wage in the Samoa, Wake, and Guam islands. p. D646

7. PUBLIC DEBT. The Ways and Means Committee ordered reported H. R. 11740, providing for a temporary increase of $3 billion in the statutory debt limit for the fiscal year 1957. p. D648

8. FOREIGN TRADE. Rep. Bailey criticized the further reduction in tariffs and the State Department's program of tariff negotiation, and inserted a letter expressing concern at the increase of clothing and textile imports from Japan. p. 9559

9. ADVISORY COMMITTEES. The House Committee on Government Operations has issued a committee print, "Replies from Executive Departments and Federal Agencies to Inquiry Regarding Use of Advisory Committees," Part 1, Department of Agriculture. A few copies are available in this office for reference or lending purposes (Ext. 4654, Room 105A).

SENATE

10. ACCOUNTING; BUDGETING. The Government Operations Committee reported without amendment S. 3897, to improve governmental budgeting and accounting methods and procedures (S. Rept. 2265). Sen. Kennedy discussed the bill and inserted a letter from the Comptroller General. The bill was made the unfinished business for consideration today. pp. 9502, 9540.

Calendar No. 2286

84TH CONGRESS, 2d Session | SENATE | REPORT No. 2265

IMPROVING GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES, AND FOR OTHER PURPOSES

JUNE 19, 1956.—Ordered to be printed

Mr. KENNEDY, from the Committee on Government Operations, submitted the following

REPORT

[To accompany S. 3897]

The Committee on Government Operations, to whom was referred the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, having considered the same, report favorably thereon, without amendment, recommend that the bill do pass.

PURPOSE

The bill amends the Budget and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950 so as to improve Federal budgeting and accounting methods and procedures as recommended by the Commission on Organization of the Executive Branch of the Government, to permit: (1) the inclusion of program costs and accomplishments in the annual budget; (2) the submission of budgetary requests for appropriations on an annual accrued expenditure basis; (3) the excess of appropriations on an annual expenditure basis over accrued expenditures to lapse, and the remaining balances to be transferred to a single account at the end of each fiscal year; (4) the agencies to prepare and execute their budgets on a cost basis; (5) the head of each agency to bring about consistency between accounting and budget classifications; (6) the synchronization of the accounting and budget classifications with the organization structure; (7) support of the budget justifications by information on performance and program costs by organizational units; (8) each agency to maintain its accounts on an accrual basis showing resources, liabilities, and operating costs; (9) the integration of property accounting records with the financial accounting system; and (10) the simplification of agency systems for subdividing funds.

The bill specifically excludes the application of the annual accrued expenditure concept to requests for appropriations for the payment of certified claims, tax refunds, private relief acts, interest on trust funds, revolving funds, pensions, payment to former members of the Armed Forces, their dependents, and other similar appropriations for which the submission on an accrual basis would not serve any useful purpose.

The objectives listed herein are intended to be implemented by the President, although close cooperation of the executive and legislative branches of the Government will be essential. It is expected that the conversion of the budget and accounting system to the principles and procedures contemplated under this bill will take place on an agency by agency basis during the next 4 or 5 years.

Section 1 of the bill authorizes the President, to the maximum extent deemed desirable, to include information on program costs and accomplishments in the annual budget; to determine the amounts of proposed appropriations on an annual accrued expenditure basis; and to require the departments and establishments to develop their requests for appropriations from cost-based budgets and to use such cost-based budgets for purposes of administration and operation.

Section 2 provides for improved budget presentation by requiring the agencies to achieve consistency in accounting and budget classifications; synchronization between such classifications and organizational structure and to support their budget justifications by information on performance and program costs by organizational units. This section also provides that the accounts shall be maintained on an accrual basis and that the accounting system include adequate monetary property accounting records both of which are necessary prerequisites to the preparation of cost-based budgets.

Section 3 requires each agency to work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.

The bill makes ample provision for a modernized budget program based upon actual or estimated costs. Thus, the Congress will have the tools to review actual performance in the past and to exercise effective control over the expenditures to be accrued during the budget year. It will substantially reduce the huge unexpended balances of appropriations which presently are carried forward from prior years.

HOOVER COMMISSION RECOMMENDATIONS

The Hoover Commission recommendations on budget and accounting represent a constructive program to carry forward evolutionary improvements of the character urged by this committee since 1947. The first Hoover Commission made a significant contribution and many of its recommendations were included in the Budget and Accounting Procedures Act of 1950 sponsored by this committee. Others had already been achieved in whole or in part prior to the enactment of that legislation.

Enactment of S. 3897, would accomplish or pave the way for the accomplishment of the recommendations contained in the Budget

and Accounting Report of the second Hoover Commission dealing with—

1. Program costs and accomplishments in the executive budget;
2. Annual accrued expenditure appropriations;
3. A single account for each appropriation;
4. Cost-based budgets;
5. Information on performance and program costs by organizational units and synchronization of organization structures, budget classifications and accounting systems;
6. Accrual accounting, including adequate monetary property accounting; and
7. Simplification of allotment systems.

COMMITTEE ACTION

The Subcommittee on Reorganization held hearings on March 20, 21, 26, 27, and 28, 1956, on a related bill, S. 3199, which was introduced in the Senate for the purpose of implementing the recommendations of the Hoover Commission. At these hearings the sponsor of S. 3199 (Senator Payne) and representatives of the principal departments and agencies of the Government testified in favor of its objectives. Some of the witnesses, however, expressed certain reservations regarding those provisions which would require the assignment of budget experts to the large agencies, establishment of a comptroller in each agency, establishment of a staff office of accounting in the Bureau of the Budget, and other objectives which it is believed could be attained administratively under existing law.

At the direction of the chairman, representatives of the General Accounting Office, the Department of the Treasury, the Bureau of the Budget, and the staff of the committee redrafted the bill, which was introduced as S. 3897 on May 21, 1956, by Senator Kennedy, chairman of the Subcommittee on Reorganization, with Senator Payne and 30 other Senators as cosponsors.

The subcommittee held hearings on S. 3897 on June 4, 5, and 6, 1956, during which time all of the witnesses endorsed the objectives contained in the bill, and recommended favorable action thereon. However, representatives of several agencies, in communications to the committee, express some concern over the application of the bill to no-year appropriations and other funds which are made available for procurement of long-lead-time items or other similar types of programs and activities. In this connection, the Department of Defense expressed considerable concern regarding the application of the language in section 1 (a) of the bill with respect to the authority of Congress to grant obligation authority in advance of appropriations.

The Department recommended that, if the accrued expenditure basis of appropriations is adopted, as contained in the bill, section 1 (a) be amended so as to provide a means for continuing obligational authority. The Department expressed the opinion that such action is necessary in order to provide a complete bill, and to make it clear that the existing authority to include requests for contract authorizations in the budget will not be abrogated. For this reason the Department recommended that a proviso be inserted in subsection 1 (b) stating that—

> nothing in this subsection shall be construed to affect the authority of the President to submit requests for authorizations to create obligations in advance of appropriations.

Counsel for the Comptroller of the Department of Defense reported that there was some doubt as to whether the section, when made applicable to the President, would have the effect of canceling the definition of appropriations, particularly the authority to create obligations in advance of appropriations.

The amendment recommended by the Department of Defense was considered by the subcommittee, with a view of determining its implication on the overall objectives of the National Military Establishment, and after consultation with attorneys of the General Accounting Office and representatives of the Bureau of the Budget, the chairman requested a formal interpretation of the section from the Comptroller General of the United States.

COMMENTS OF THE COMPTROLLER GENERAL

By letter dated June 6, 1956, the Comptroller General ruled that it is his considered opinion that there is no conflict whatsoever between the new subsection 201 (b) contained in the bill and the present section 201 of the Budget and Accounting Act of 1921, as amended; that the new language could not be construed as restricting the authority to request contract authorizations in the bill pending before the committee.

The Comptroller General concluded by stating:

> It thus seems very clear to us that the existing authority to include requests for contract authorizations in the budget would not be abrogated by this bill, and that the clarifying language suggested by the Department of Defense is unnecessary.

The complete text of the Comptroller General's decision is contained herein and made a part of this report.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, June 6, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate.

DEAR MR. CHAIRMAN: During the hearings this morning on S. 3897, representatives of the Department of Defense suggested that the language of the proposed section 201 (b) of the Budget and Accounting Act, 1921, might be clarified by the insertion of the following proviso at the end of the paragraph in lines 6 through 9 of page 2 of S. 3897: "*Provided,* That nothing in this subsection shall be construed to affect the authority of the President to submit requests for authorizations to create obligations in advance of appropriations."

The Defense representatives apparently felt that the present langauge of lines 6 through 9 might possibly be construed as repealing by implication the authority for requesting contract authorizations contained in the present section 201 of the Budget and Accounting

Act, 1921. It is our considered opinion that there is no conflict whatsoever between the language of the new subsection 201 (b) proposed to be added by this bill and the present section 201 of that act, and that the proposed section 201 (b) could not be construed as restricting the authority to request contract authorizations in the present section 201.

Section 2 of the Budget and Accounting Act, 1921, as amended, defines the term "appropriation" as used in that act as follows:

"The term 'appropriations' includes, *in appropriate context*, funds and authorizations to create obligations by contract in advance of appropriations, or any other authority making funds available for obligation or expenditure." [Italic supplied.]

The use of the words "in appropriate context" contained in that definition makes it clear that the term "appropriation" may mean (1) the appropriation of funds; (2) authorizations to create obligations by contract in advance of appropriations (commonly referred to as "contract authority"); or both (1) and (2). As the term "appropriation" is used in the present section 201(d), which under this bill would be section 201(a) (5), and section 203, it clearly means both appropriation of funds and contract authority. As that term is used in line 6, page 2, of the bill, however, it is used in relation to the determining of amounts of proposed appropriations on an accrued expenditure basis. As the term "appropriation" is used in that context, it can mean only the appropriation of funds. Since the language in lines 6 through 9, page 2 of the bill relates only to the appropriation of funds, it cannot be viewed as conflicting with the authority in the present section 201 to include in the budget proper requests for authorizations to create obligations in advance of appropriations. The appropriation committees of the Congress will thus have the tools to review both the complete programs for which contractual authorizations are requested or have been granted as well as the amount of funds required to meet the expenditures which will accrue in the budget year.

Moreover, it should be noted that the legislative history of this bill already has made it clear that contractual authorizations for long lead-time programs will be required when the appropriations therefor are stated on an annual accrued expenditure basis. This was pointed out in the Hoover Commission Report on Budget and Accounting.

It thus seems very clear to us that the existing authority to include requests for contract authorizations in the budget would not be abrogated by this bill and that the clarifying language suggested by the Department of Defense is unnecessary.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

During the hearings on S. 3897, the Comptroller of the Department of Defense testified that the Department wholeheartedly supports the provisions of the bill with respect to the use of: (1) cost-based budgets, (2) the accrual basis of accounting, (3) basis of synchronizing budgeting and accounting classifications, and (4) the basis of administrative subdivision of funds and other provisions of the bill.

The Comptroller, however, expressed some reservations as to the savings which would result from the adoption of the accrued expenditure basis for appropriations. The Comptroller also expressed the

view that there would be some problems with regard to the implementation of the legislation by the Department of Defense.

Considerable testimony was developed by the committee during the course of its hearings on the bill with respect to the substantial progress being made in the Department of Defense toward sound financial management of its huge resources under title IV of the 1949 amendments to the National Security Act which was the result of the first Hoover Commission recommendations. Enactment of this bill will encourage the Department of Defense to continue to accelerate its plans for full implementation of title IV. These improvements, including continued progress in adoption of the cost-based budgets, wide utilization of accrual accounting, more realistic administrative control of funds and the synchronization of budget accounting classifications and organizational structure as well as in the other areas of Department of Defense financial management can go forward without the necessity for awaiting any change in the basis of making appropriations. As a matter of fact, these improvements must necessarily precede such a change.

CONCLUSION

It is the firm conviction of this committee that S. 3897 would provide the necessary legislative authority for major improvements in the fields of budgeting and accounting in the Federal Government, and that it conforms to those objectives and conclusions of the Hoover Commission Report on Budget and Accounting which require or would be expedited by legislative action.

Certain recommendations of the Hoover Commission which can best be accomplished administratively have been omitted from the bill. Also, those recommendations pertaining to the settlement of claims were incorporated in another bill, S. 3362, which was reported by this committee on June 7, 1956, and the recommended legislative action to provide relief of accountable officers was included in legislation enacted during the first session of the 84th Congress—Public Laws 334 and 365 approved on August 9, and 11, 1955, respectively.

This committee has been active for a number of years in promoting improved financial administration in the Federal Government and, in accord with the statutory authority, will continue to give consideration to the problems and progress in budget and accounting procedures throughout the Government. Inasmuch as the implementation of the practices and procedures provided for in S. 3897 will, according to evidence submitted at the hearings, require a period of years before full implementation of the program, it is particularly important that the committee keep in close contact with developments thereunder, should the bill be enacted into law.

In addition, the close cooperation of the Appropriations Committees of the Congress, the Bureau of the Budget, the Department of the Treasury, the General Accounting Office, and all of the agencies will be required to bring about the implementation and the advancement of the ultimate objectives of this legislation.

SECTION-BY-SECTION ANALYSIS OF S. 3897

Section 1 (a): This section is designed to implement recommendations Nos. 4, 7, and 17 of the Hoover Commission Budget and Accounting Report which provide:

(4) That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

(7) That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

(17) That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Section 201 (a) of the Budget and Accounting Act, 1921, would require the President to set forth in the budget, at such times as may be practicable, information on program costs and accomplishments. Such information should permit the Congress to give consideration to both relative size of programs and the question of economy and efficiency, as proposed in the first part of Hoover Commission Recommendation No. 4. The latter part of this recommendation is implemented by the addition of section 106 to the Budget and Accounting Procedures Act of 1950, as contained in section 2 (a) of the bill.

Section 201 (b) would require the President, to the maximum extent deemed desirable and practicable, to determine the amounts of regular, supplemental, or deficiency appropriation requests on an annual accrued expenditure basis, that is, the amounts of appropriated funds needed to pay for goods and services to be received in the fiscal year and other payments authorized by law to be made in such fiscal year from the particular appropriation. Certain appropriations, for which the annual controls contemplated by the accrued expenditure basis would obviously serve no purpose, are specifically excluded. The stating of appropriation on an annual accrued expenditure basis would vest in the Congress the determination of the level of activity during the budget year and would assure annual review by the agencies and the Congress of past and proposed performance under programs involving long lead-time contracts. This would accomplish Hoover Commission Recommendation No. 7.

Section 201 (c) vests discretion in the President as to the manner and time that requests for appropriations shall be determined on an accrual expenditure basis. The conversion could be effected over a period of time as and when systems of programing, budgeting, and accounting were deemed adequate. This conversion cannot be successfully effected until such systems are adequate.

Section 201 (d) would lapse the excess of any appropriation or fund made on an annual accrued expenditure basis over the accrued expenditures under such appropriation or fund as of the end of each fiscal year and merge the remaining balances of each such appropriation or fund with any appropriation or fund made for the same general purpose for the ensuing fiscal year as a single account. The merging of the remaining balances with the related appropriation for the ensuing fiscal year permits the use of only one account in accordance with Hoover Commission Recommendation No. 17, but only to the extent that appropriations are stated on an accured expenditure basis.

Section 1 (b): This section is designed to implement recommenda-

tions Nos. 3 and 6 of the Hoover Commission Budget and Accounting Report which provide:

> (3) That for management purposes, cost-based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.
>
> (6) That executive agency budgets be formulated and administered on a cost basis.

Section 216 (b) of the Budget and Accounting Act, 1921, would authorize the President to require the departments and agencies to develop their requests for appropriations from cost-based budgets. Section 216 (c) would require such cost-based budgets to be used by all departments and establishments and their subordinate units for purposes of administration and operation including the administrative subdivisions of appropriations or funds. Recommendations Nos. 3 and 6 eventually could be completely adopted.

Section 2 (a): This section is designed to carry out the latter part of Hoover Commission Recommendation No. 4, referred to above under section 1 (a), and recommendation No. 5, which provides:

> (5) That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Section 106 of the Budget and Accounting Procedures Act of 1950 is intended to achieve, insofar as possible, three objectives: (1) Consistency in accounting and budget classifications; (2) synchronization between such accounting and budget classifications and organizational structure; and (3) support of the executive budget by information on performance and program costs by organizational units. Information would thus be available to the Congress for review of performance and program costs of each organizational unit including those which do not coincide with performance budget classifications. Objectives (1) and (2) are included in Hoover Commission Recommendation No. 5 and objective (3) in the latter part of recommendation No. 4.

Section 2 (b): This section is designed to implement recommendations Nos. 14 and 16 which provide:

> (14) That Government accounts be kept on the accrual basis to show currently, completely and clearly all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.
>
> (16) That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Section 113 (c) of the Budget and Accounting Procedures Act of 1950 would require the head of each executive agency, as soon as practicable, to cause the accounts of such agency to be maintained on an accrual basis and to maintain adequate monetary property accounting records as an integral part of the accounting system. Only when this done would it be possible for management or the Congress to determine at any given time the fiscal status of such agency, as contemplated by recommendations Nos. 14 and 16.

Section 2 (c): This section amends the definition of the term "executive agency" in section 118 of the Budget and Accounting Procedures Act of 1950 to include the Post Office Department within the meaning of that term as used in section 113 (c) of that act.

Section 3: This section merely states legislatively recommendation No. 13 which provides:

> (13) That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

The making of numerous allotments which are further divided and suballotted to lower levels leads to much confusion and inflexibility in the financial control of appropriations or funds as well as numerous minor violations of section 3679, Revised Statutes, as amended (the Anti-Deficiency Act).

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, which is in existing law made by the bill S. 3897, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new material is printed in italics, existing law in which no change is proposed is shown in roman):

BUDGET AND ACCOUNTING ACT, 1921, AS AMENDED BY THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

* * * * * * *

SEC. 201. (*a*) The President shall transmit to Congress, during the first fifteen days of each regular session, the Budget, which shall set forth his Budget message, summary data, and text, and supporting detail. The Budget shall set forth in such form and detail as the President may determine—

[a] (*1*) functions and activities of the Government;

(*2*) *at such times as may be practicable, information on program costs and accomplishments;*

[b] (*3*) any other desirable classifications of data;

[c] (*4*) a reconciliation of the summary data on expenditures with proposed appropriations;

[d] (*5*) estimated expenditures and proposed appropriations necessary in his judgment for the support of the Government for the ensuing fiscal year, except that estimated expenditures and proposed appropriations for such year for the legislative branch of the Government and the Supreme Court of the United States shall be transmitted to the President on or before October 15 of each year, and shall be included by him in the Budget without revision;

[e] (*6*) estimated receipts of the Government during the ensuing fiscal year, under (1) laws existing at the time the Budget is transmitted and also (2) under the revenue proposals, if any, contained in the Budget;

[f] (*7*) actual appropriations, expenditures, and receipts of the Government during the last completed fiscal year;

[g] *(8)* estimated expenditures and receipts, and actual or proposed appropriations of the Government during the fiscal year in progress;

[h] *(9)* balanced statements of (1) the condition of the Treasury at the end of the last completed fiscal year, (2) the estimated condition of the Treasury at the end of the fiscal year in progress, and (3) the estimated condition of the Treasury at the end of the ensuing fiscal year if the financial proposals contained in the Budget are adopted;

[i] *(10)* all essential facts regarding the bonded and other indebtedness of the Government; and

[j] *(11)* such other financial statements and data as in his opinion are necessary or desirable in order to make known in all practicable detail the financial condition of the Government.

(b) The amounts of proposed appropriations referred to in sections 201 (a) and 203 of this Act shall, to the maximum extent deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis.

"Annual accrued expenditures" shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

This subsection shall not apply to appropriations made specifically for the payment of claims certified by the Comptroller General and of judgments; appropriations for the refund of Federal taxes and of other moneys erroneously received and covered into the Treasury of the United States; appropriations made by private relief Acts of Congress; appropriations for the payment of interest on trust funds; revolving funds or appropriations thereto; appropriations for the payment to former members of the armed forces, their dependents and beneficiaries, of any benefits to which they are entitled by reason of military service; appropriations for the payment of pensions and annuities; appropriations for the payment of any obligation of the United States for which liability is fixed by treaty; and other appropriations or funds analogous to the foregoing.

(c) The conversion to the use of annual accrued expenditures for stating proposed appropriations in accordance with section 201 (b) of this Act shall be accomplished in such manner and at such times as may be determined by the President.

(d) As of the end of each fiscal year, the excess of any appropriation or fund made on an annual accrued expenditure basis over the accrued expenditures under such appropriation or fund shall lapse, unless thereafter provided otherwise in an appropriation act or other law. Any remaining balances of each such appropriation or fund shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year and shall constitute a single account.

SEC. 216. *(a)* Requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau by the head of any department or establishment shall be prepared and submitted as the President may determine in accordance with the provisions of section 201.

(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their

subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets.

Budget and Accounting Procedures Act of 1950

ACCOUNTING AND BUDGET CLASSIFICATIONS

Sec. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units.

Sec. 113. (a) The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide—

(1) full disclosure of the financial results of the agency's activities;

(2) adequate financial information needed for the agency's management purposes;

(3) effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit;

(4) reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of its budget, and for providing financial information required by the Bureau of the Budget under section 213 of the Budget and Accounting Act, 1921 (42 Stat. 23);

(5) suitable integration of the accounting of the agency with the accounting of the Treasury Department in connection with the central accounting and reporting responsibilities imposed on the Secretary of the Treasury by section 114 of this part.

(b) The accounting systems of executive agencies shall conform to the principles, standards, and related requirements prescribed by the Comptroller General pursuant to section 112 (a) of this part.

(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system.

Sec. 118. As used in this part, the term "executive agency" means any executive department or independent establishment in the executive branch of the Government but (a) except for the purposes of sections 114, 116, and 119 shall not include any Government corporation or agency subject to the Government Corporation Control Act (59 Stat. 597), and (b) except for the purposes of sections 111, *113 (c)*, 114, and 116 shall not include the Post Office Department.

SECTION 3679, REVISED STATUTES (ANTI-DEFICIENCY ACT)

(g) Any appropriation which is apportioned or reapportioned pursuant to this section may be divided and subdivided administratively within the limits of such apportionments or reapportionments. The officer having administrative control of any such appropriation available to the legislative branch, the judiciary, or the District of Columbia, and the head of each agency, subject to the approval of the Director of the Bureau of the Budget, shall prescribe, by regulation, a system of administrative control (not inconsistent with any accounting procedures prescribed by or pursuant to law) which shall be designed to (A) restrict obligations or expenditures against each appropriation to the amount of apportionments or reapportionments made for each such appropriation, and (B) enable such officer or agency head to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an apportionment or reapportionment. *In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.*

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Calendar No. 2286

84TH CONGRESS
2D SESSION

S. 3897

[Report No. 2265]

IN THE SENATE OF THE UNITED STATES

MAY 21 (legislative day, MAY 7), 1956

Mr. KENNEDY (for himself, Mr. PAYNE, Mr. BYRD, Mr. BRIDGES, Mr. MCCLELLAN, Mr. JACKSON, Mr. HUMPHREY, Mr. MCCARTHY, Mr. MUNDT, Mrs. SMITH of Maine, Mr. BENDER, Mr. MARTIN of Iowa, Mr. WELKER, Mr. CHAVEZ, Mr. HRUSKA, Mr. BUSH, Mr. FLANDERS, Mr. IVES, Mr. THYE, Mr. MAGNUSON, Mr. SALTONSTALL, Mr. BUTLER, Mr. MARTIN of Pennsylvania, Mr. DIRKSEN, Mr. BENNETT, Mr. CURTIS, Mr. SMITH of New Jersey, Mr. BEALL, Mr. MANSFIELD, Mr. CASE of South Dakota, Mr. LANGER, and Mr. BARRETT) introduced the following bill; which was read twice and referred to the Committee on Government Operations

JUNE 19, 1956

Reported by Mr. KENNEDY, without amendment

A BILL

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 AMENDMENT TO THE BUDGET AND ACCOUNTING ACT, 1921
4 SEC. 1. (a) Section 201 of the Budget and Accounting
5 Act, 1921, as amended (31 U. S. C. 11), is further amended
6 by inserting "(a)" after the words "SEC. 201."; by chang-
7 ing subsection (a) to subparagraph (1); by adding after

1 subparagraph (1) a new subparagraph "(2) at such times
2 as may be practicable, information on program costs and
3 accomplishments"; by changing subsections (b) through
4 (j) to subparagraphs (3) through (11), respectively; and
5 by adding the following new subsections:

6 "(b) The amounts of proposed appropriations referred
7 to in sections 201 (a) and 203 of this Act shall, to the
8 maximum extent deemed desirable and practicable by the
9 President, be determined on an annual accrued expenditure
10 basis.

11 "'Annual accrued expenditures' shall relate to goods
12 and services to be received in a fiscal year, advance pay-
13 ments, progress payments, and such other payments as are
14 authorized by law to be made in such fiscal year.

15 "This subsection shall not apply to appropriations made
16 specifically for the payment of claims certified by the Comp-
17 troller General and of judgments; appropriations for the re-
18 fund of Federal taxes and of other moneys erroneously
19 received and covered into the Treasury of the United States;
20 appropriations made by private relief Acts of Congress;
21 appropriations for the payment of interest on trust funds;
22 revolving funds or appropriations thereto; appropriations for
23 the payment to former members of the Armed Forces, their
24 dependents and beneficiaries, of any benefits to which they
25 are entitled by reason of military service; appropriations for

1 the payment of pensions and annuities; appropriations for
2 the payment of any obligation of the United States for which
3 liability is fixed by treaty; and other appropriations or funds
4 analogous to the foregoing.

5 "(c) The conversion to the use of annual accrued ex-
6 penditures for stating proposed appropriations in accordance
7 with section 201 (b) of this Act shall be accomplished in
8 such manner and at such times as may be determined by
9 the President.

10 "(d) As of the end of each fiscal year, the excess of
11 any appropriation or fund made on an annual accrued ex-
12 penditure basis over the accrued expenditures under such
13 appropriation or fund shall lapse, unless hereafter provided
14 otherwise in an appropriation Act or other law. Any re-
15 maining balances of each such appropriation or fund shall
16 be merged with any appropriation or fund made for the same
17 general purpose for the ensuing fiscal year and shall constitute
18 a single account."

19 (b) Section 216 of such Act, as amended (31 U. S. C.
20 24), is further amended by inserting "(a)" after the words
21 "SEC. 216." and by adding the following new subsections:

22 "(b) The requests of the departments and establish-
23 ments for appropriations shall, in such manner and at such
24 times as may be determined by the President, be developed
25 from cost-based budgets.

1 "(c) For purposes of administration and operation, such
2 cost-based budgets shall be used by all departments and
3 establishments and their subordinate units. Administrative
4 subdivisions of appropriations or funds shall be made on the
5 basis of such cost-based budgets."

6 AMENDMENTS TO THE BUDGET AND ACCOUNTING
7 PROCEDURES ACT OF 1950

8 SEC. 2. (a) The Budget and Accounting Procedures
9 Act of 1950 is amended by inserting after section 105
10 thereof the following new section:

11 "ACCOUNTING AND BUDGET CLASSIFICATIONS

12 "SEC. 106. The head of each executive agency shall,
13 in consultation with the Director of the Bureau of the
14 Budget, take whatever action may be necessary to achieve,
15 insofar as is possible, (1) consistency in accounting and
16 budget classifications, (2) synchronization between account-
17 ing and budget classifications and organizational structure,
18 and (3) support of the budget justifications by information
19 on performance and program costs by organizational units."

20 (b) Section 113 of such Act (31 U. S. C. 66a) is
21 amended by adding at the end thereof the following new
22 subsection:

23 "(c) As soon as practicable after the date of enact-
24 ment of this subsection, the head of each executive agency
25 shall, in accordance with principles and standards prescribed

1 by the Comptroller General, cause the accounts of such
2 agency to be maintained on an accrual basis to show the
3 resources, liabilities, and costs of operations of such agency
4 with a view to facilitating the preparation of cost-based
5 budgets as required by section 216 of the Budget and
6 Accounting Act, 1921, as amended. The accounting system
7 required by this subsection shall include adequate monetary
8 property accounting records as an integral part of the
9 system."

10 (c) Section 118 of such Act is amended by inserting
11 "113 (c)" after the words "section 111".

12 SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

13 SEC. 3. Section 3679 (g), Revised Statutes, as amended
14 (31 U. S. C. 665 (g)), is further amended by adding at the
15 end thereof the following sentence: "In order to have a
16 simplified system for the administrative subdivision of appro-
17 priations or funds, each agency shall work toward the
18 objective of financing each operating unit, at the highest
19 practical level, from not more than one administrative sub-
20 division for each appropriation or fund affecting such unit."

Calendar No. 2286

84TH CONGRESS
2D SESSION

S. 3897

[Report No. 2265]

A BILL

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

By Mr. KENNEDY, Mr. PAYNE, Mr. BYRD, Mr. BRIDGES, Mr. McCLELLAN, Mr. JACKSON, Mr. HUMPHREY, Mr. McCARTHY, Mr. MUNDT, Mrs. SMITH of Maine, Mr. BENDER, Mr. MARTIN of Iowa, Mr. WELKER, Mr. CHAVEZ, Mr. HRUSKA, Mr. BUSH, Mr. FLANDERS, Mr. IVES, Mr. THYE, Mr. MAGNUSON, Mr. SALTONSTALL, Mr. BUTLER, Mr. MARTIN of Pennsylvania, Mr. DIRKSEN, Mr. BENNETT, Mr. CURTIS, Mr. SMITH of New Jersey, Mr. BEALL, Mr. MANSFIELD, Mr. CASE of South Dakota, Mr. LANGER, and Mr. BARRETT

MAY 21 (legislative day, MAY 7), 1956

Read twice and referred to the Committee on Government Operations

JUNE 19, 1956

Reported without amendment

Whereas postmasters in different regional areas issued various type questionnaires to employees concerning outside activities; and

Whereas we deem this an invasion of our rights as citizens and free men in a democratic society; and

Whereas we are paid for an 8-hour day and a 40-hour week for working in the post office, and the remainder of each day and each week should be our own time, to do with as we see fit, as long as we violate no laws of the land; and

Whereas the authority to force this indignity upon postal employees stems from the decision in the St. Paul court action regarding such an order in that office; and

Whereas this policy by the department is a far reaching matter that could and will eventually touch each and every postal and Government employee: Therefore be it

Resolved, That the California Federation of Post Office Clerks, in convention assembled at Fresno May 24–27, do go on record as condemning and protesting this action; and be it further

Resolved, That action be taken to bring this to the attention of the delegates at the national convention in Chicago in August, 1956, and that the national officers be mandated to seek to remedy the situation, either by legislation, or by appeal to a higher court of the St. Paul decision; and be it further

Resolved, That if court action is necessary that such action be carried to the highest court possible in an effort to gain a reversal of the St. Paul decision and that the various locals in the federation be assessed on a prorata basis the cost of appealing said court action; and be it further

Resolved, That copies of this resolution be sent immediately to the national officers, so that they may know the stand of this organization at once; and be it further

Resolved, That copies of this resolution be sent immediately to each member of the House and Senate Post Office and Civil Service Committee.

PROTESTING "GAG" ORDERS OF THE POSTAL FIELD SERVICE

Whereas employees are restrained from advising with each other—by means of bulletin boards located in locker and swing rooms, without prior censorship by the postal official in charge of the installation, concerning matters which may be held to be controversial by the postal official in charge who is, in many cases, directly and solely responsible for whatever controversy exists; and

Whereas by means of recent changes in the Postal Manual, specifically parts 741 and 744 and all sections pertaining thereto, a studied and calculated attempt has been made to silence employees of the postal field service to prevent them from expressing their dissatisfaction with existing conditions; and

Whereas the provisions of this change have already been enforced in some instances; and

Whereas the existing relations between management and labor in the postal field service are not in the best interests of the postal service: Therefore be it

Resolved, That the California Federation of Post Office Clerks assembled in convention at Fresno, Calif., May 24–27, 1956, does hereby condemn these actions of the Post Office Department as oppressive, unwise and illegal and destructive of a sound modern personnel-management relationship, and calls upon the 84th Congress to support immediate and corrective action toward these inequities, and be it further

Resolved, That copies of this resolution be forwarded to our national officers, Senators KNOWLAND and KUCHEL, and each of the California Congressmen, Congressman Moss, Subcommittee on Government Information, and that it also be released to the press for publication.

DISSEMINATION OF PROPAGANDA

Whereas the primary function of the Postal Bulletin has always been to transmit official information; and

Whereas the Department now uses the Postal Bulletin as a medium to disseminate propaganda; and

Whereas the Department publishes and issues free of charge to employees, a magazine titled "Postal Service News"; and

Whereas it is obvious that the aim of the Department is to reduce the deficit, even at the expense of maintaining adequate service: Therefore be it

Resolved, That the California Federation of Post Office Clerks in convention assembled at Fresno, Calif., May 24–27, 1956, go on record urging the omission of Department propaganda from the Postal Bulletin and the suspension of "Postal Service News"; and be it further

Resolved, That the specific cost of this unnecessary publication to the taxpayer be ascertained to determine the exact amount the deficit can be reduced; and, be it further

Resolved, That copies of this resolution be sent to the Chairman of the Senate and House Post Office Committees and to the Senators and Representatives from California.

PROTEST TRANSFER OF GOVERNMENT ACTIVITIES TO PRIVATE BUSINESS

Whereas the President of the United States has directed the Federal Agencies and Departments to review their commercial and industrial activities to determine which functions can be taken over by private industry; and

Whereas the entire policy is being predicated without regard to increased cost to the taxpayer, national security, the Government's moral obligation to Federal employees and the Government's operation of the Postal Service as established by the Constitution of the United States; and

Whereas such directions have affected affected postal operations by recommending:

(a) Postal remittances, money order, and other finance activities formerly handled in post offices and in other central accounting offices have been transferred to banking institutions:

(b) IBM machines and others are now being used in postal work with the ownership retained by business firms and used in postal activities on a rental basis;

(c) The Post Office Department has contracted much of the postal work to individuals and firms who to all intents and purposes conduct post offices involving money order, registry, COD, insurance, stamp sales and other postal activities: Now, therefore, be it

Resolved, That the California Federation of Post Office Clerks, in convention assembled at Fresno, Calif., May 24–27, 1956, go on record in opposition to the policy which would deprive postal personnel of the duties pertinent to the operation of the United States Postal Service as now established by the Constitution and the laws of Congress; and be it further

Resolved, This protest be communicated to Members of Congress from the State of California, to the Honorable RICHARD M. NIXON, Vice President of the United States, and President of the Senate; the Honorable LYNDON JOHNSON, majority leader; the Honorable W. F. KNOWLAND, minority leader, the Honorable SAM RAYBURN, Speaker of the House of Representatives; the Honorable JOHN MCCORMACK, majority leader; and the Honorable JOSEPH W. MARTIN, JR., minority leader, advising them of our protest over this policy of taking away the duties and work of postal personnel and transferring same to private individuals who have not demonstrated their ability to handle such responsibility, nor have pledged their loyalty and devotion to the Federal Government as have the post-office employees of this Nation.

WORKING CONDITIONS

Whereas the present policies of the Post Office Department involve the elimination of seniority as a major factor in promotions; and

Whereas the installation of the Works Performance Standards program has resulted in the establishment of a vicious speed-up system which places men in competition with each other in an effort to reach impossible goals; and

Whereas other working conditions with particular reference to hours and tours of duty, assignments, compensatory time and substitute employment to name only a few, are steadily deteriorating; and

Whereas interpretations of Public Laws 68, 84th Congress, by the Post Office Department are designed to circumvent and nullify the provisions of section 606 (b) of that act by authorizing or purporting to authorize the employment of substitutes for less than 2 hours on a voluntary basis in direct violation of law; and

Whereas the interpretation by the Post Office Department of section 403 (1) deprives employees of their legal rights to promotions on specified dates, contrary to the stated language of the act; and

Whereas regional and district officers are issuing orders and directives with respect to seniority, sick and annual leave, filling of vacancies and increases in complement which are directly contrary to what we have been assured is the policy of the Post Office Department; and

Whereas as a result of these developments and others too numerous to mention there is a steady and noticeable decline in morale among employees; and

Whereas these conditions have all been brought about by unilateral actions on the part of the Post Office Department without previous consultation with employee representatives on either a local or national scale; and

Whereas employees are restrained, under part 743.222 of the Postal Manual, from advising with each other—by means of bulletin boards located in locker and swing rooms not accessible to the public—concerning matters which may be held to be controversial by a postmaster who is in many cases, directly and solely responsible for whatever controversy exists; and

Whereas by means of recent changes in the Postal Manual, part 744.442, a studied and calculated attempt has been made to silence and gag employees of the field postal service to prevent them from expressing their dissatisfaction with existing conditions; and

Whereas this action is in direct violation of section 6 of the act of August 24, 1912, better known as the Lloyd-LaFollette anti-gag law: Now, therefore, be it

Resolved, That the California Federation of Post Office Clerks, in convention assembled at Fresno, Calif., May 24, 25, 26, 27, 1956, does hereby condemn those actions of the Post Office Department as oppressive, unwise and illegal and destructive of a sound modern personnel-management relationship, and call upon the California Congressmen and Senators thereof, to enact legislation which will absolutely require the heads of each department and agency of our Federal Government to cease and desist from practices which in the case of an employer under the National Labor Relations Act would be branded as unfair labor practices; and be it further

Resolved, That we endorse the Rhodes-Johnston bills H. R. 10237; S. 3593 for this purpose and urge each Member of Congress who believes in human dignity and fair play to support this legislation and work for its enactment at the current session of the 84th Congress.

REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. CHAVEZ, from the Committee on Public Works, with amendments:

S. 3704. A bill to authorize the acquisition of the remaining property in square 725 and the property in square 724 in the District of Columbia for the purpose of extension of the size of the additional office building for the United States Senate or for the purpose of addition to the United States Capitol Grounds (Rept. No. 2263).

By Mr. EASTLAND, from the Committee on the Judiciary, without amendment:

S. 1693. A bill for the relief of Robert F. Gross (Rept. No. 2269).

By Mr. MURRAY, from the Committee on Interior and Insular Affairs, without amendment:

S. 3042. A bill to amend section 27 of the Mineral Leasing Act of February 25, 1920, as amended (30 U. S. C., sec. 184), in order to promote the development of phosphate on the public domain (Rept. No. 2272).

By Mr. MURRAY, from the Committee on Interior and Insular Affairs, with amendments:

S. 1333. A bill to authorize the construction, operation, and maintenance of the Hells Canyon Dam on the Snake River between Idaho and Oregon, and for related purposes (Rept. No. 2275).

By Mr. BIBLE, from the Committee on Interior and Insular Affairs, without amendment:

S. 3512. A bill to permit desert land entries on disconnected tracts of lands which, in the case of any one entryman, form a compact unit and do not exceed in the aggregate 320 acres (Rept. No. 2271).

By Mr. BIBLE, from the Committee on Interior and Insular Affairs, with an amendment:

S. 3743. A bill to add certain federally owned land to the Lassen Volcanic National Park, in the State of California, and for other purposes (Rept. No. 2264).

By Mr. BEALL, from the Committee on the District of Columbia, without amendment:

H. R. 6782. A bill to amend section 7 of an act making appropriations to provide for the government of the District of Columbia for the fiscal year ending June 30, 1903, and for other purposes, approved July 1, 1902, as amended (Rept. No. 2268).

By Mr. KENNEDY, from the Committee on Government Operations, with amendments:

S. 3362. A bill to simplify accounting, facilitate the payment of obligations, and for other purposes (Rept. No. 2266); and

H. R. 7227. A bill to amend further the Federal Property and Administrative Services Act of 1949, as amended, to authorize the disposal of surplus property for civil defense purposes, to provide that certain Federal surplus property be disposed of to State and local civil defense organizations which are established by or pursuant to State law, and for other purposes (Rept. No. 2267).

By Mr. MONRONEY, from the Committee on Banking and Currency, without amendment:

H. R. 10230. An act to amend sections 3526 and 3528 of the Revised Statutes relating to the coinage of subsidiary silver coins and minor coins of the United States (Rept. No. 2270).

By Mr. JENNER (for Mr. GREEN), from the Committee on Rules and Administration, without amendment:

S. Con. Res. 79. Concurrent resolution to print additional copies of Senate document No. 117, entitled "A Handbok for Americans."

By Mr. GEORGE, from the Commitee on Foreign Relations, without amendment:

S. J. Res. 165. Joint resolution approving the relinquishment of the consular jurisdiction of the United States in Morocco (Rept. No. 2274).

By Mr. GEORGE, from the Committee on Foreign Relations, with an amendment:

H. R. 11356. A bill to amend further the Mutual Security Act of 1954, as amended, and for other purposes (Rept. No. 2273).

By Mr. MAGNUSON, from the Committee on Interstate and Foreign Commerce, with an amendment:

H. R. 5226. A bill to provide for the redemption by the Post Office Department of certain unsold Federal migratory-bird hunting stamps, and to clarify the requirements with respect to the age of hunters who must possess Federal migratory-bird hunting stamps (Rept. No. 2276).

IMPROVEMENT OF GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES (S. REPT. NO. 2265)

Mr. KENNEDY. Mr. President, I am about to submit a report, and I ask unanimous consent that I may speak on it, in excess of the 2 minutes allowed under the order which has been entered.

The PRESIDENT pro tempore. Without objection, the Senator from Massachusetts is recognized.

Mr. KENNEDY. Mr. President, from the Committee on Government Operations, I report favorably, without amendment, the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes.

This bill was ordered reported unanimously by the Committee on Government Operations on June 7, 1956, after extensive hearings during this session of the Congress. In my opinion, and that of the foremost authorities on financial management, it is the most significant development in the Government's financial structure in a decade or more.

Sponsored by 32 Members of this body, from both sides of the aisle, the bill would place the entire governmental financial structure on an annual accrued expenditures basis. The heart of the bill is contained in section I which provides that the Congress make its appropriations for each fiscal year upon the estimates of expenditures actually to be made or to be accrued during that fiscal year, as opposed to the present complicated procedure whereby the Congress appropriates billions of dollars for a fiscal year which are expended during future fiscal years—and over which the Congress has little or no control once the appropriations are made.

This feature would eliminate or substantially reduce the tremendous carryovers of unexpended balances of appropriations, presently estimated as high as $48 billion, which have plagued the Congress for many years. In addition, I am convinced enactment of this legislation will produce substantial operating economies by placing our financial structure on a more businesslike basis where we know each fiscal year what is required, what is expended, and what we have received for the expenditures made.

To convert appropriations to an annual expenditures basis, the bill provides that the executive agencies shall maintain their budgets on a cost-operating basis and maintain their accounts on an accrual expenditures basis. In no other way can the Congress realistically appropriate on the basis of actual requirements each fiscal year.

To avert any fear or confusion that this legislation will in any way impair the maintenance of the military establishment at the levels that the preservation of our national security dictates, I should like to state that the evidence presented before the Government Operations Committee makes clear that the stating of appropriations on an expenditures basis will not affect the existing statutory authority of the executive departments, including the Department of Defense, to contract for or make commitments for capital expenditures in future fiscal years, provided that the existing requirement that advance approval be obtained from the Appropriations Committees of the Congress is met.

In connection with this very important aspect, I should like to have printed in the RECORD, as a part of my remarks, a letter from the Comptroller General of the United States.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, June 6, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization, Committee on Government Operations, United States Senate.

DEAR MR. CHAIRMAN: During the hearings this morning on S. 3897, representatives of the Department of Defense suggested that the language of the proposed section 201 (b) of the Budget and Accounting Act, 1921, might be clarified by the insertion of the following proviso at the end of the paragraph in lines 6 through 9 of page 2 of S. 3897:

"*Provided*, That nothing in this subsection shall be construed to affect the authority of the President to submit requests for authorizations to create obligations in advance of appropriations."

The Defense representatives apparently felt that the present language of lines 6 through 9 might possibly be construed as repealing by implication the authority for requesting contract authorizations contained in the present section 201 of the Budget and Accounting Act, 1921. It is our considered opinion that there is no conflict whatsoever between the language of the new subsection 201 (b) proposed to be added by this bill and the present section 201 of that act, and that the proposed section 201 (b) could not be construed as restricting the authority to request contract authorizations in the present section 201.

Section 2 of the Budget and Accounting Act, 1921, as amended, defines the term "appropriation" as used in that act as follows:

"The term 'appropriations' includes, in appropriate context, funds and authorizations to create obligations by contract in advance of appropriations, or any other authority making funds available for obligation or expenditure."

The use of the words "in appropriate context" contained in that definition makes it clear that the term "appropriation" may mean (1) the appropriation of funds; (2) authorizations to create obligations by contract in advance of appropriations (commonly referred to as "contract authority"); or both (1) and (2). As the term "appropriation" is used in the present section 201 (d), which under this bill would be section 201 (a) (5), and section 203, it clearly means both appropriation of funds and contract authority. As that term is used in line 6, page 2, of the bill, however, it is used in relation to the determining of amounts of proposed appropriations on an accrued expenditure basis. As the term "appropriation" is used in that context, it can mean

only the appropriation of funds. Since the language in lines 6 through 9, page 2 of the bill relates only to the appropriation of funds, it cannot be viewed as conflicting with the authority in the present section 201 to include in the budget proper requests for authorizations to create obligations in advance of appropriations. The appropriation committees of the Congress will thus have the tools to review both the complete programs for which contractual authorizations are requested or have been granted as well as the amount of funds required to meet the expenditures which will accrue in the budget year.

Moreover, it should be noted that the legislative history of this bill already has made it clear that contractual authorizations for long lead-time programs will be required when the appropriations therefor are stated on an annual accrued expenditure basis. This was pointed out in the Hoover Commission Report on Budget and Accounting.

It thus seems very clear to us that the existing authority to include requests for contract authorizations in the budget would not be abrogated by this bill and that the clarifying language suggested by the Department of Defense is unnecessary.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

Mr. KENNEDY. Mr. President, I am fully aware that the stating of appropriations on an expenditures basis is, indeed, a revolutionary change in the Government's financial structure. I may advise the Senate that this is proposed by the Senate Committee on Government Operations only after the most thorough deliberation and consideration.

This bill has the unqualified endorsement of the Director of the Bureau of the Budget, the Comptroller General of the United States, and the Secretary of the Treasury, as well as the general approval of the Department of Defense, which, I might say, despite the many technical problems involved, has cooperated wholeheartedly with the Senate Government Operations Committee's Subcommittee on Reorganization in the processing of this legislation during the last 90 days. As a matter of fact the Department of Defense has, for many years, been working steadily toward the accomplishment of most of the basic financial improvements which are the objectives of this bill.

In conclusion, I should like to emphasize that this legislation directly implements, verbatim, the recommendations of the Second Hoover Commission relating to cost-based budgeting, accrued accounting, and converting appropriations to an expenditures basis. The Hoover Commission gave the greatest significance to the conversion of appropriations to an expenditures basis as essential to improving financial management of the executive branch and restoring control of the purse to the Congress.

In connection with this, the President of the United States, in a special message to the Congress delivered May 10, 1956, urged early enactment of appropriate legislation to accomplish the Hoover Commission's recommendations in this field. After briefly reviewing certain administrative action already taken by the Bureau of the Budget, the President stated:

The actions being taken by the executive branch to put many of the Commission's proposals into effect will require close coordination with the legislative branch and merit the support which the Congress should and can provide. I urge that the Congress seek the early enactment of appropriate legislative provisions to support the main objectives of the Commission's recommendations.

The provisions of this bill, upon which the Reorganization Subcommittee of the Senate Committee on Government Operations has been working since early in this session of the 84th Congress, would, as I have previously indicated, directly effectuate the Hoover Commission's recommendations, as the President of the United States requested.

I strongly urge early consideration by the Senate of this vitally important bill. I know of no other legislation which is of greater importance at this crucial time to bringing order to our complicated financial structure and maintaining this Government on its strongest financial foundation.

The PRESIDENT pro tempore. The report will be received, and the bill will be placed on the calendar.

Mr. JOHNSON of Texas. Mr. President, will the Senator from Massachusetts yield?

Mr. KENNEDY. I yield.

Mr. JOHNSON of Texas. I wonder when the distinguished Senator would like to have called up the budget and accounting bill, on which he has just filed a unanimous report. Would he be ready to have the bill considered later in the week?

Mr. KENNEDY. Yes; as soon as it is agreeable to the majority leader.

Mr. JOHNSON of Texas. As I understand, the bill was reported unanimously.

Mr. KENNEDY. It was reported unanimously by its sponsors on both sides of the aisle.

Mr. JOHNSON of Texas. The leadership also is interested in the depressed-areas bill. I understand the Senator from Massachusetts attended a meeting of the committee this morning, but a quorum of the committee was not present. Is there to be an attempt to have a meeting later this week?

Mr. KENNEDY. Yes, a meeting will be held to decide on the matter one way or another this week.

Mr. JOHNSON of Texas. I assure the distinguished Senator from Massachusetts of the cooperation of the leadership. As soon as the minority leader gives me an answer concerning the bill just reported, the leadership will try to schedule it for consideration on either Wednesday or Thursday, or on Friday if the Senate is in session, or perhaps on Monday if the consideration of the bill will not take a great deal of time.

As soon as the depressed-areas bill is reported, the leadership expects to give it high priority.

I hope the members of the committee will meet and act on the proposed legislation at as early a date as possible. I do not want to have the calendar become crowded in the last days of the session.

Mr. KENNEDY. I appreciate the willingness of the majority leader to schedule quick action on Senate bill 3897, because it embodies, I think, one of the most important recommendations of the Hoover Commission.

Mr. JOHNSON of Texas. The leadership is delighted to cooperate with the very able Senator from Massachusetts.

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. SMITH of New Jersey (for himself and Mr. HILL):

S. 4081. A bill to encourage and assist the States in the establishment of State Committees on Education Beyond the High School; to the Committee on Labor and Public Welfare.

(See the remarks of Mr. SMITH of New Jersey when he introduced the above bill, which appear under a separate heading.)

By Mr. MAGNUSON:

S. 4082. A bill for the relief of Kasimirs Abarons; to the Committee on the Judiciary.

By Mr. MAGNUSON (for himself and Mr. JACKSON) (by request):

S. 4083. A bill to change the name of the Government locks at Ballard, Wash., to the "Hiram M. Chittenden locks"; to the Committee on Public Works.

By Mr. KEFAUVER:

S. 4084. A bill for the relief of Heskel Salman Shina; to the Committee on the Judiciary.

By Mr. SALTONSTALL (for himself and Mr. KENNEDY) (by request):

S. 4085. A bill for the relief of John (Ioannis) Legatos; to the Committee on the Judiciary.

GRANTS TO STATES FOR STATE COMMITTEES ON EDUCATION BEYOND THE HIGH SCHOOL LEVEL

Mr. SMITH of New Jersey. Mr. President, the Nation will soon be facing a very critical situation with regard to our institutions of higher learning—namely, our colleges and universities. It is estimated that within the next 10 years there will be 3 students in our colleges for every 2 who are now there.

So we shall soon be facing some very difficult questions. Where will we get the needed teachers? How can the coming increase in students be handled by the colleges without decreasing their standards?

Closely allied to these problems is the serious shortage of trained college graduates in such fields as science and engineering.

In order that these numerous problems may receive serious and organized attention at all levels of Government and among our private institutions, President Eisenhower, in his special message to Congress of January 12, 1956, announced he would appoint a Committee on Education Beyond the High School.

This has now been done; and the President's Committee has recommended the appropriation of one-time grants to all the States, to encourage the setting up of State committees on education beyond the high school level.

Mr. President, after conferring with the distinguished senior Senator from Alabama [Mr. HILL], the chairman of the Committee on Labor and Public Welfare, I introduce, on behalf of the Senator from Alabama and myself, a bill to authorize the appropriation of $800,000,

to be available until June 30, 1958, for grants to the States on the basis of their populations, to encourage and assist them in the initial formulation of the State committees to make this study.

Mr. President, I ask that the bill be appropriately referred; and I ask unanimous consent to have printed in the RECORD, at the conclusion of my remarks, a copy of the bill and a letter to the Speaker of the House from Secretary of Health, Education, and Welfare, the Honorable Marion B. Folsom, asking for support of this proposal.

The PRESIDENT pro tempore. The bill will be received and appropriately referred; and, without objection, the bill and letter will be printed in the RECORD.

The bill (S. 4081) to encourage and assist the States in the establishment of State committees on education beyond the high school, introduced by Mr. SMITH of New Jersey (for himself and Mr. HILL), was received, read twice by its title, referred to the Committee on Labor and Public Welfare, and ordered to be printed in the RECORD, as follows:

Be it enacted, etc., That the Congress hereby finds and declares that the impending great increases in enrollment in higher education institutions, the great national need for increased numbers of scientists, engineers, teachers, technicians, nurses, and other trained personnel, the rapid changes in conditions which necessitate additional education for many adults, and the dependence of the national security on the research and advanced preparation provided by educational institutions, combine to make it imperative that immediate stimulus be given to planning and action throughout the Nation which will meet adequately the needs for education beyond the high school.

SEC. 2. (a) To encourage and assist each State to provide for a State committee on education beyond the high school, composed of educators and other interested citizens, to consider educational problems beyond the high school and to make recommendations for appropriate action to be taken by public and private agencies at local, State, regional, and Federal levels, there is hereby authorized to be appropriated the sum of $800,000. Sums appropriated pursuant to this section shall be allotted to the States on the basis of their respective populations according to the latest figures certified by the Department of Commerce except that no State's allotment shall be less than $7,500.

(b) The Commissioner of Education shall pay its allotment to each State which, through its governor or other State official designated by the governor, undertakes to accept and use the sums so paid exclusively for the purposes set forth in subsection (a), including the expenses of studies and conferences, and to have its State committee on education beyond the high school make a report of its findings and recommendations to the Commissioner for the use of the President's committee on education beyond the high school. Sums appropriated pursuant to this section shall remain available until June 30, 1958, and any such sums remaining unpaid to the States or unobligated by them as of that date shall be returned to the Treasury.

SEC. 3. The Commissioner is authorized to accept funds, equipment, personal services, and facilities donated for purposes of this act and to use the same in accordance with such purposes.

SEC. 4. For the purposes of this act the term "State" includes the District of Columbia, Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

The letter presented by Mr. SMITH of New Jersey is as follows:

DEPARTMENT OF HEALTH,
EDUCATION, AND WELFARE,
Washington, June 11, 1956.

Hon. SAM RAYBURN,
Speaker of the House of Representatives.

DEAR MR. SPEAKER: I am enclosing for your consideration a draft bill to encourage and assist the States in the establishment of State committees on education beyond the high school.

The draft bill would authorize the appropriation of $800,000, to be available until June 30, 1958, for grants to the States on the basis of their respective populations, in order to encourage and assist each State to provide for a State committee on education beyond the high school, which committee, through studies and conferences, would consider educational problems beyond the high school and make recommendations for appropriate action to be taken by public and private agencies at local, State, regional, and Federal levels. States would be required, through their governors, to undertake to use grants solely for the purposes of the act and to have their State committees submit reports to the Commissioner of Education for use of the President's Committee on Education Beyond the High School.

You will recall that the President, in his special message to the Congress on January 12, 1956, expressed his concern about the growing problems in the field of education beyond the high school and indicated that he would appoint a committee to develop proposals in this field, as follows:

Shortages now exist in medicine, teaching, nursing, science, engineering, and in other fields of knowledge which require education beyond the level of the secondary school. Changing times and conditions create new opportunities and challenges. There are now possibilities for older persons, properly trained, to lead more productive and rewarding lives. The tide of increasing school enrollment will soon reach higher educational institutions. Within 10 years we may expect 3 students in our colleges and universities for every 2 who are there now.

Higher education is and must remain the responsibility of the States, localities, and private groups and institutions. But to lay before us all the problems of education beyond high school, and to encourage active and systematic attack on them, I shall appoint a distinguished group of educators and citizens to develop this year, through studies and conferences, proposals in this educational field. Through the leadership and counsel of this group, beneficial results can be expected to flow to education and to the Nation, in the years ahead.

Composition of the committee was announced April 19 and on April 27 it met, organized, and agreed on basic objectives as follows: First, to collect, assemble and disseminate information for the purpose of increasing public awareness of the vast challenge which lies ahead in the field of education beyond the high school; second, to encourage the planning and action which must now be undertaken by institutions and groups of institutions, locally and nationally, publicly and privately, to meet the impending demands upon our educational system; the third, to advise the President as to the proper role of the Federal Government in this field and to recommend appropriate Federal policies and relationships.

In order to provide immediate stimulus to the initiation of widespread planning, studies, and action which should be undertaken now by institutions, States and localities, the committee recommended the provision of one-time grants to the States to encourage and assist each State to establish a State committee on education beyond the high school. These State counterparts to the national committee are essential not only for coordination of study and planning activities in the States but to provide a nationwide mechanism for liaison with the national committee. The instant draft bill is designed to accomplish these objectives.

This Department shares with the Committee on Education Beyond the High School and with the educational leadership of the Nation, the great concern we all have about the necessity of bringing concerted action to bear on the mounting problems which we foresee ahead in this field of education and in meeting our future manpower needs. We are, therefore, in accord with the recommendation of the Committee.

I shall appreciate it if you would refer the draft bill to the appropriate committee for consideration.

The Bureau of the Budget advises that enactment of this proposed legislation would be in accord with the program of the President.

Sincerely yours,

M. B. FOLSOM,
Secretary.

DEPARTMENT OF DEFENSE APPROPRIATIONS—AMENDMENTS

Mr. BRIDGES (for himself, Mr. BYRD, Mr. ELLENDER, Mr. SALTONSTALL, Mr. KNOWLAND, Mr. HOLLAND, and Mr. MUNDT) submitted amendments, intended to be proposed by them, jointly, to the bill (H. R. 10986) making appropriations for the Department of Defense for the year ending June 30, 1957, and for other purposes, which were ordered to lie on the table and to be printed.

EXTENSION OF LAWS DEALING WITH PROMOTIONS IN THE COAST GUARD—CHANGE OF REFERENCE OF LETTER

Mr. SALTONSTALL. Mr. President, I ask unanimous consent that the Committee on Armed Services be discharged from the further consideration of a letter dated May 18, 1956, from the Acting Secretary of the Treasury, addressed to the Vice President, relative to an extension of laws dealing with promotions in the Coast Guard, and that the letter be referred to the Committee on Interstate and Foreign Commerce.

The PRESIDENT pro tempore. Is there objection to the request of the Senator from Massachusetts? The Chair hears none, and it is so ordered.

ADDRESSES, EDITORIALS, ARTICLES, ETC., PRINTED IN THE APPENDIX

On request, and by unanimous consent, addresses, editorials, articles, etc., were ordered to be printed in the Appendix, as follows:

By Mr. CASE of New Jersey:

Address delivered by former Senator Robert C. Hendrickson, now Ambassador to New Zealand, before Tin Hat Club, Christchurch, New Zealand, on April 24, 1956.

By Mr. MARTIN of Pennsylvania:

Citation awarded to George Meany for combating world communism and assisting the American Legion, and an address by Peter M. McGavin.

By Mr. GORE:

Statement by Commissioner Thomas E. Murray, of the United States Atomic Energy Commission, concerning the development of industrial atomic power, which will appear hereafter in the Appendix.

Editorial entitled "The Atomic Race for Peace," published in the Knoxville News-Sentinel.

England and France found themselves with respect to the Nazis in the Middle thirties. It was this kind of talk in her Parliament, that resulted in the British being placed in an impossible situation.

Mr. THYE. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. I yield.

Mr. THYE. No one could have a higher regard for any Member of the United States Senate than I have for the distinguished Senator from Missouri. I knew him when he was Secretary of Air. I had great respect for him then, and I have great respect for him now.

I would challenge anyone who might maintain that the B–36 is everything we desire in an air defense unit as of today. We know that we are striving to perfect even the B–52's, and we know that the B–52 is far superior to the B–36.

Therefore I must reiterate my statement that if we had produced a greater number of B–36's in 1953 and 1954 than we did, we would have inventories today which would not be the most desirable in defense equipment.

The B–52 will not be the most desirable plane in years to come. That is a certainty. I asked Secretary of Defense Wilson, in a committee hearing, whether we had the plant facilities and the personnel to step up production if an emergency demanded increased production. I received the assurance that we did have.

I have been inside the plants, and I have asked the same question of the superintendents and the plant managers. If an emergency called for it, and if we needed to step up production to a basis of 24 hours daily production, we could produce more B–52's than we are now manufacturing. That is the important phase of our defense, namely, our ability to expand if the emergency calls for it. However, if the emergency does not call for it, we would not be wise in our action if we were in this calendar year to fill up our depots with equipment which might be in an obsolete state in the next year or so.

Mr. JOHNSON of Texas. Mr. President, I will say to my good friend from Minnesota that if we were to follow that line of reasoning to its logical conclusion, we would not buy any B–52's. We are not getting delivery on many of them now.

Mr. THYE. Oh, the Senator knows better than to make that kind of statement. I must say that in all fairness.

Mr. JOHNSON of Texas. A great deal of work must be done before an airplane is actually built. In the meantime it may well become obsolete. That is due to the inventive genius of our country.

Mr. President, last night we were a billion dollars apart. The Senator from Texas is one who believes in the old saying that a man's judgment is no better than his information.

Mr. THYE. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. The Senator from Texas wishes to finish his sentence first.

Evidently, the information which has been made available since the committee voted on the matter yesterday has brought some of our friends to the conclusion that wisdom dictates a change of $500 million in their position. The Senator from Texas is pleased with the progress we are making. He expresses the hope that his very good friend from Minnesota will join him. If he does not wish to join the Senator from Texas, at least the Senator from Texas hopes that he will join his friend the Senator from New Hampshire [Mr. BRIDGES], in voting for a $500 million increase. The judgment of the Senator from Texas is not infallible, of course, and it may be that his friend from New Hampshire has a better figure than he has.

The Senator from Texas has learned over the years to have very great respect for the judgment of the Senator from New Hampshire and for his colleagues on the other side of the aisle. He expresses the hope that the Senator from Minnesota [Mr. THYE] will join with them, if he cannot join the Senator from Texas. If the Senator from Minnesota cannot go all the way, the Senator from Texas hopes he will go a part of the way, and that perhaps in the days to come we will finally arrive at an area in which we can reach an agreement.

Mr. THYE. A westerner, when he saw a vicious prairie fire sweeping across the plains, would usually start a backfire. That was the safest way for him to protect himself and his property. It may be that the action of the distinguished Senator from New Hampshire and his colleagues is by way of a little backfire so as to save the Nation's Treasury.

Mr. JOHNSON of Texas. I would not associate myself with any such viewpoint as has been expressed by the Senator from Minnesota. I do not attribute any such motive to the Senator from New Hampshire.

Mr. President, I ask unanimous consent that the clerk may read the amendment submitted by the Senator from New Hampshire, so that we may at least be informed of all its implications.

The PRESIDING OFFICER. Without objection, the clerk will read as requested.

The LEGISLATIVE CLERK. It is proposed on page 23, line 17, in lieu of "$6,848,500,000" insert "$6,398,500,000."

On page 26, line 4, in lieu of "$3,780,185,000" insert "$3,770,185,000."

On page 29, strike out lines 14–19, inclusive.

Mr. JOHNSON of Texas. The Senator from Texas wishes to conclude his statement at this point by saying that he much prefers the committee's action to the suggested amendment of the Senator from New Hampshire.

If the Senate, in its wisdom, is unable to go along with the committee's amendment, he certainly hopes that the Senate will go along with the figure proposed by his friend from New Hampshire.

Mr. SYMINGTON. Mr. President, the distinguished Senator from Minnesota knows there is no one in the Senate for whom the Senator from Missouri has more affection and respect than he has for the Senator from Minnesota.

I was not criticizing the distinguished Senator from Minnesota. However, inasmuch as he is a member of the Committee on Appropriations, he is entitled to the information. I suggest that he look up the production record of B–52's for the past 6 months. If he does, he will not worry about any danger of there being too many on hand.

Mr. THYE. I know exactly what the production is, because no one could have sat through the hearings without knowing it.

Mr. SYMINGTON. Mr. President, is the Senator from Minnesota satisfied with that production?

Mr. THYE. The Senator from Minnesota is taking every factor of our defense into consideration. Each must be weighed with the other. All of it must be weighed together.

Mr. SYMINGTON. Is the Senator from Minnesota satisfied with that production?

Mr. THYE. The Senator is satisfied with the production; yes. Yes; I am.

Mr. SYMINGTON. Does the Senator feel that the Defense Department should issue B–52 schedules and then produce only a small fraction of those schedules, and then give a lot of information on missiles to the American people as solace.

Mr. THYE. The Senator is trying to confuse missiles with B–52's.

Mr. SYMINGTON. The American people are being confused about the whole defense picture.

Mr. THYE. The Senator is bringing missiles into a debate on B–52's.

Mr. JOHNSON of Texas. Mr. President, I should like to remind Senators that it is now almost 7 o'clock. We will have a general discussion of the defense appropriation bill on Thursday, and, if necessary, on Friday also. Furthermore, if Senators wish to discuss it on Saturday, we will meet on Saturday also.

We expect to discuss it further on Monday and perhaps also on Tuesday. The Senator from Texas wishes all his friends to have every right to discuss the bill as fully as they wish, and he does not desire to monopolize the conversation. However, it is now 25 minutes to 7 o'clock, and the Senator from Texas has been on his feet for a good time. If it is agreeable, he should like to have the Senate go over until tomorrow.

AMENDMENT OF DISTRICT OF COLUMBIA POLICE AND FIREMEN'S SALARY ACT OF 1953

The Senate resumed the consideration of the bill (H. R. 10060) to amend the District of Columbia Police and Firemen's Salary Act of 1953, as amended.

Mr. McNAMARA. Mr. President, the purpose of this bill is to amend the District of Columbia Police and Firemen's Salary Act of 1953, to enable the Police Department to eliminate certain administrative difficulties insofar as the pay and work periods are concerned. Prior to the act of 1953, the pay periods and the work periods for the police force commenced on a Sunday and ended on a Saturday, making it possible for the force to be at greater strength during the peak days of police activitiy—Friday, Saturday, and Sunday—while at the same time allowing the police officers

their 2 days off per week on the less active days of the week. The act of 1953, however, went into effect on July 1, 1953, a Wednesday, causing the pay periods to begin on that day and end on a Tuesday. Because of the need for greater police strength at the weekend, it is not feasible to make the police work period coincide with the pay period, and the lack of coincidence tends to create administrative difficulties in the Department and hardship for the officers.

This bill provides for a 4-day transitional pay period, June 27 through June 30, 1956. During this period, the days-off provision in existing law would be suspended, and all members of the force would be on duty. Beginning Sunday, July 1, 1956, the work period and pay period would coincide.

The cost of the bill, resulting from the additional police services during the 4-day transition period, will be approximately $25,000. Current Police Department appropriation is sufficient to absorb the cost.

I should like to point out, Mr. President, that a bill which accomplishes the same objectives for the Fire Department was passed in the 83d Congress. The proposed legislation has the approval of the Commissioners of the District of Columbia.

The PRESIDING OFFICER. The bill is before the Senate and open to amendment. If there be no amendment to be offered, the question is on the third reading of the bill.

The bill was ordered to a third reading, read the third time, and passed.

IMPROVEMENT OF GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES

Mr. JOHNSON of Texas. Mr. President, I move that the Senate proceed to the consideration of S. 3897.

The PRESIDENT OFFICER. The bill will be stated by title for the information of the Senate.

The CHIEF CLERK. A bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Texas.

Mr. JOHNSON of Texas. Mr. President, I should like to announce that the bill was reported by the Senator from Massachusetts [Mr. KENNEDY] from the Committee on Government Operations. I am asking that the bill be made the unfinished business of the Senate. The report will be available tomorrow before the bill is considered by the Senate. I wish to have some unfinished business before the Senate.

The bill deals with the budget and the placing of the annual expenditures on an expenditure basis. The Senator from Texas does not have any further details about the bill at the moment. However, it was reported unanimously by the Committee on Government Operations. The Senator from Texas has discussed the measure with the acting minority leader, with the Senator from Maine [Mr. PAYNE], who is the author of the bill, and with the distinguished junior Senator from Massachusetts [Mr. KENNEDY], who is anxious to get action on it. It is my understanding that it carries out the recommendations of the Hoover Commission.

The report is not available at this time. The hour is late, and we do not plan to discuss the bill tonight.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Texas.

The motion was agreed to; and the Senate proceeded to consider the bill.

ADJOURNMENT

Mr. JOHNSON of Texas. Mr. President, I move that the Senate stand in adjournment until 12 o'clock noon tomorrow.

The motion was agreed to; and (at 6 o'clock and 40 minutes p. m.) the Senate adjourned until tomorrow, Wednesday, June 20, 1956, at 12 o'clock meridian.

CONFIRMATION

Executive nomination confirmed by the Senate June 19, 1956:

ATOMIC ENERGY COMMISSION

Willard Frank Libby, of Illinois, to be a member of the Atomic Energy Commission, term of 5 years, expiring June 30, 1961.

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued June 21, 1956
For actions of June 20, 1956
84th-2nd, No. 102

CONTENTS

HIGHLIGHTS: House passed farm loan bill. Senate passed bill to improve government budgeting and accounting methods and procedures. Both Houses agreed to conference report on independent offices appropriation bill. Ready for President. Senate committee reported nomination of Hamil to be REA Administrator. Senate committee ordered reported bills to increase CCC borrowing authority, and increase Public Law 480 authorizations.

SENATE

1. BUDGETING; ACCOUNTING. Passed without amendment S. 3897, to improve governmental budgeting and accounting methods and procedures. p. 9571

This bill includes the following provisions:

(1) that proposed appropriations shall, to the maximum extent deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis;

(2) that requests for appropriations shall be developed, in such manner and at such times as may be determined by the President, from cost-based budgets;

(3) that, for purposes of administration and operation, such cost-based budgets shall be used by all departments and their subordinate units;

(4) that, as soon as practicable, in accordance with standards prescribed by the Comptroller General, the accounts of each agency shall be maintained on an accrual basis to show resources, liabilities, and costs of operations.

(5) that, at the end of each fiscal year, the excess over accrued expenditures of any appropriation or fund made on an annual accrued expenditure basis shall lapse, unless otherwise provided by law, and that the remaining balances shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year.

(6) that, insofar as is possible,
  (a) consistency in accounting and budgeting classifications,
  (b) synchronization between accounting and budget classifications and organizational structure, and
  (c) support of budget justifications by information on performance and program costs by organizational units.

(7) that, accounting systems maintained on an accrual basis shall include adequate monetary property accounting records as an integral part of the system.

(8) that, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.

Passed with amendments H. R. 9593, to simplify accounting and to facilitate the payment of obligations, after substituting the language of S. 3362, a similar bill. S. 3362 was indefinitely postponed. Sen. Kennedy inserted an explanation of the difference between the two bills. p. 9596

2. ROADS. Sen. Johnson stated that the conference report on the road bill may be submitted today. p. 9612

3. MILK. Agreed to the House amendments to S. 1614, to fix a reasonable definition and standard of identity of certain dry milk solids. This bill will now be sent to the President. p. 9612

4. NOMINATIONS. The Agriculture and Forestry Committee reported the nominations of David A. Hamil to be REA Administrator, and Glen A. Boger to be a member of the Farm Credit Board. p. 9611

5. ELECTRIFICATION. Sen. Goldwater compared public power electric rates with those of private power companies. p. 9569

Sen. Lehman inserted newspaper articles reviewing the history of the preference clause in Federal power legislation. p. 9567

6. FOREIGN AFFAIRS. Received from the President the report of the National Advisory Council on international monetary and financial problems. p. 9566

The Foreign Relations Committee reported without amendment S. Res. 285, providing for studies of foreign assistance by the U. S. (S. Rept. 2278). p. 9566

7. RECLAMATION. Passed without amendment H. R. 101, to provide clarifications in contract repayments in irrigation and reclamation projects. This bill will now be sent to the President. pp. 9572, 9573

Agreed to the House amendments to S. 1622, to authorize the Secretary of the Interior to make payment for certain improvements located on public lands in the Rapid Valley unit, S. Dak. of the Mo. River Basin project. This bill will now be sent to the President. p. 9599

8. CCC. The Agriculture and Forestry Committee ordered reported with amendment S. 3820, to increase the borrowing authority of the CCC. The "Daily Digest" states that the committee amendment "would increase borrowing poser from $14 billion to $14.5 billion". p. D652

9. FOREIGN AID. The Agriculture and Forestry Committee ordered reported with amendment S. 3903, to increase the amount authorized to be appropriated for purposes of title I of Public Law 480 to $3 billion. The "Daily Digest" states that the committee amendment would "make its provisions conform to those of

rate, and driving the small, independent dealers out of business.

The issue we are facing is whether the local independent businessman is seeing the end of his day as a part of the economic system of America, and is being succeeded by the national operator, who is in a position to write the whole law for himself.

It will be the endeavor of the subcommittee, as I stated to Governor Simpson in response to his letter to me, to make arrangements for the full presentation of the problem by representatives of independent filling stations, independent jobbers, small refiners, and big refiners. I hope to be able to lay on the table the entire story of the devices by which local independent enterprise is losing its economic freedom.

One of the bills, S. 11, was introduced by the Senator from Tennessee [Mr. KEFAUVER].

The commitee is also about to open hearings on the meat industry. The Senator from Tennessee will preside at the opening session, which will be held tomorrow. The bills which are involved are not only S. 11, introduced by the Senator from Tennessee, but also H. R. 1840, introduced by Representative BYRON G. ROGERS of Colorado, and S. 780, which was introduced by the Senator from Indiana [Mr. CAPEHART].

Mr. LONG. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. LONG. I am pleased to learn that hearings are to be conducted upon this important issue. I very much hope that the committee will report S. 11, or a bill which will accomplish the same purpose, some time during the next few weeks, because Congress will not be in session much longer. I am a cosponsor, along with the Senator from Tennessee [Mr. KEFAUVER], of S. 11.

Mr. O'MAHONEY. I am aware of that fact.

Mr. LONG. The Senator from Wyoming is familiar with the problems involved. It seems to me that the price discriminations which are adversely affecting small business are very serious. Unless Congress acts to afford some element of protection to small business which does not now exist, we shall see very many more business failures and bankruptcies than are necessary.

Mr. O'MAHONEY. The Senator is quite correct. I believe it will be possible to report proposed legislation which will, at least, be of some assistance in the situation which is developing.

The problem affects the entire economy. The struggle is now reaching its most critical point. I refer to the struggle between small independent enterprise in local communities and the great national, concentrated companies which operate throughout the United States, and sometimes throughout the world. We are losing the power to regulate commerce in the public welfare, and shall continue to lose it unless legislation of this kind, well drafted and properly conceived, is enacted.

IMPROVEMENT OF GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES

The PRESIDENT pro tempore. Is there further morning business? If not, morning business is concluded, and the Chair lays before the Senate the unfinished business.

The Senate resumed the consideration of the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes.

Mr. JOHNSON of Texas. Mr. President, I suggest the absence of a quorum.

The PRESIDENT pro tempore. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. O'MAHONEY in the chair). Without objection, it is so ordered.

Mr. KENNEDY. Mr. President, in my opinion, the pending bill, if enacted, will bring about the most important reforms and improvements in the Government's financial structure in a decade or more.

Cosponsored by the distinguished Senator from Maine [Mr. PAYNE], who is a great authority on the subject and has done a tremendous amount of work in this field of legislation, and by 30 other distinguished Members of the Senate from ecah side of the aisle, S. 3897 was reported unanimously by the Committee on Government Operations on June 7.

It has the unqualified endorsement of the major financial departments of the Government, including the Director of the Bureau of the Budget, the Comptroller General of the United States and the Secretary of the Treasury, each of whom submitted testimony before the Subcommittee on Reorganization which held the hearings upon this matter.

The bill implements directly the recommendations of the Second Commission on Organization of the Executive Branch of the Government—the Second Hoover Commission—relating to budgeting and accounting.

The task force on budgeting and accounting was headed by Mr. J. Harold Stewart, of Boston, to whom the subcommittee is strongly indebted.

The bill would enact into law the recommendations made by the President of the United States to the Congress in his special message delivered May 10, 1956, when he urged early enactment of appropriate legislation in this field.

As I pointed out on yesterday when I filed the committee's report, this proposed legislation would place the entire governmental structure on an accrued annual expenditures basis, thus improving the financial management within the executive agencies, and immeasurably strengthening the control of the Congress over the purse strings.

As the Senate probably knows, more than $25 million of Government expenditures in 1956 are being made from funds appropriated in previous years. It seems to me, therefore, that the pending measure, if enacted, would bring about a radical and important reform in governmental accounting.

The bill provides that the executive agencies shall determine their budgets on a cost basis and shall maintain their accounts on an accrual expenditures basis to provide the foundation for the stating of appropriations by the Congress on an annual accrued expenditures basis, which is the heart of fiscal control.

In other words, upon the enactment of this bill, the Congress would make its appropriations for each fiscal year upon the estimates of expenditures actually to be made or to be accrued during that fiscal year, as opposed to the present appropriations procedure whereby appropriations are made upon an obligation basis which at times extends over several fiscal years in the future.

I am fully aware that this is a revolutionary change in our fiscal processes which could not be effectuated overnight, but which in all probability would be implemented gradually with the least disturbance within the executive agencies. Nor, do I believe—nor was there any evidence in the hearings—that it would have any adverse effect upon the Government's financial operations.

To the contrary, there is every indication that substantial operating economies will accrue to the Government from the establishment of more business-like budgeting, accounting, and appropriations procedures. I strongly urge favorable action upon this bill.

Mr. COTTON. Mr. President, will the Senator yield?

Mr. KENNEDY. I yield to the Senator from New Hampshire, who has attended every hearing on the bill and whose fine assistance was extremely important in bringing about action on the bill in committee and having it reported to the Senate.

Mr. COTTON. I thank the chairman of the subcommittee for his kind expressions. My purpose in rising is to make sure the record shows that the distinguished Senator from Massachusetts, the chairman of the subcommittee which considered the proposed legislation, handled it in his characteristic, able fashion. He gave it his constant attention. Hearings were held with great care. Testimony from the Comptroller General of the United States, from the Bureau of the Budget, and from departments involved, including the Department of Defense, was taken and carefully sifted and screened.

As a minority member of the subcommittee, I should like to take this opportunity to commend the distinguished Senator from Masachusetts for his able, careful, and painstaking handling of this important measure, and other measures to implement the recommendations of the Hoover Commission, to express my confidence in the subcommittee and the staff and also to assure the Senate that the measure has been carefully screened. We are all in hearty accord in urging the Senate to pass the bill.

Mr. KENNEDY. I thank the Senator, very much. I also wish to express regret that the Senator from Maine [Mr. PAYNE], who played such a major role in preparing this measure, is unable to be present because of a death in his family. In talking with him yesterday he expressed his great interest in the measure.

Mr. JOHNSON of Texas. Mr. President, will the Senator from Massachusetts yield?

Mr. KENNEDY. I yield.

Mr. JOHNSON of Texas. Mr. President, I wish to express my commendation of the Senator from New Hampshire [Mr. COTTON] for his nonpartisan approach to this matter and for the comments he has made regarding the Senator from Massachusetts [Mr. KENNEDY]. The Senator from Maine [Mr. PAYNE] is a coauthor of the measure. He expressed the hope that it would not be brought before the Senate during his absence, which was made necessary by a death in his family, but that did not fit in with the wishes of some other Senators.

I appreciate the contribution of both the Senator from New Hampshire and the Senator from Maine, and I also wish to commend my friend from Massachusetts [Mr. KENNEDY].

Mr. KENNEDY. I thank the Senator from Texas.

Mr. KNOWLAND. Mr. President, will the Senator from Massachusetts yield?

Mr. KENNEDY. I yield.

Mr. KNOWLAND. Mr. President, I wish to join in the comments made by the Senator from New Hampshire. As has been stated, the Senator from Maine [Mr. PAYNE] is unavoidably absent because of a death in his family. He is vitally interested in the measure and has asked me to convey to the Senate the great importance he attaches to this measure in connection with the operations of the Federal Government.

I wish to join, also, in commending the distinguished chairman of the subcommittee, the Senator from Massachusetts [Mr. KENNEDY], who has done such good work on the bill. I also wish to commend the entire committee and those who have worked together, on both sides of the aisle, in bringing the measure before the Senate.

Mr. KENNEDY. I thank the Senator from California.

Mr. McCLELLAN. Mr. President, will the Senator from Massachusetts yield?

Mr. KENNEDY. I yield.

Mr. McCLELLAN. Mr. President, I wish to state that too often, I think, we overlook the importance of the work and the responsibilities which are assumed by subcommittees of the various standing committees. In this particular instance, as my friend from Massachusetts [Mr. KENNEDY] and other Members realize, the chairman of the Government Operations Committee is carrying a very heavy workload; and were it not for Senators, like the distinguished Senator from Massachusetts, who are willing to cooperate and willing to take the chairmanship of subcommittees and actually do the heavy work in developing and processing proposed legislation of this character, our committees would bog down.

I am personally indebted to the Senator from Massachusetts and to those who serve with him on both sides of the aisle for the splendid job which has been done on this bill. It is an important measure. We can make substantial progress in getting ready for action on important and needed legislation only as our subcommittees take responsibility and do the job as thoroughly and efficiently as it has been done in this instance. The chairman of the full committee is thoroughly appreciative of the labors of the members of the subcommittee.

Mr. KENNEDY. I thank the Senator from Arkansas.

In considering appropriations for the armed services, we noticed a great number of obligated but unexpended balances which have been carried over for years. This bill will prevent such a situation from arising. It will give far greater authority to the Appropriations Committee each year, and it will be necessary for the committee to decide each year how much shall be appropriated to prevent the tremendous carryovers. So, Mr. President, it seems to me that this measure offers a hope of substantial savings, and also far greater control by the executive branch and by the Appropriations Committees of the Congress.

The PRESIDING OFFICER. The bill is open to amendment. If there be no amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading and was read the third time.

Mr. JOHNSON of Texas. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. KENNEDY in the chair). Without objection, it is so ordered.

The bill having been read the third time, the question is, Shall it pass?

The bill (S. 3897) was passed.

Mr. BYRD subsequently said: Mr. President, I ask unanimous consent that, following the passage of the Kennedy-Payne bill, Senate bill 3897, there be printed in the RECORD a statement by me.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR BYRD

KENNEDY-PAYNE BILL

I am a patron on this bill because it is expressly a step in the direction of two objectives which I believe to be urgently needed in the Federal fiscal system:

1. Annual review of Congress of all major appropriations for expenditure in the coming fiscal year; and

2. Reduction in unexpended balances carried over from prior appropriations which now are available for years with ineffective legislative control over the annual rate of expenditure from them.

We must keep constantly before us the fact that there is a wide difference between annual appropriations and annual expenditures. It is annual expenditures—not appropriations—measured by annual revenue which result in annual deficits or surpluses.

To demonstrate the difference between annual appropriations and annual expenditures, I shall summarize the record for the past 10 years.

In 1948 we appropriated $39 billion and spent $34 billion.

In 1949 we appropriated $41 billion and spent $40 billion.

In 1950 we appropriated $50 billion and spent $45 billion.

In 1951 we appropriated $84 billion and spent $45 billion.

In 1952 we appropriated $93 billion and spent $66 billion.

In 1953 we appropriated $80 billion and spent $74 billion.

In 1954 we appropriated $63 billion and spent $68 billion.

In 1955 we appropriated $57 billion and spent $65 billion.

In 1956 we appropriated $62 billion and it is estimated that we shall spend $64 billion.

In 1957 the President has requested appropriations totaling $66 billion and the Budget Bureau has estimated that we shall spend $66 billion.

The accumulation of unexpended balances in appropriations over the years in excess of expenditures, after deducting lapses, now totals $74.6 billion. If we should appropriate in this session of Congress the full amount requested by the President for fiscal year 1957, beginning July 1, we would enter the new fiscal year with appropriations and other authorizations for expenditure totaling $140.9 billion.

Of the $66 billion in new appropriations requested by the President for fiscal year 1957, only $42.7 billion is for actual expenditure during the year. This means that of the appropriations we are making at this time, assuming the budget requests, $23.3 billion would be for expenditure in some subsequent year. Under the legislative appropriation practices, expenditure from this $23.3 billion balance would be subject to very little annual review by Congress in subsequent years.

This huge balance has been built up under a policy of financing tremendous long-lead time projects in advance by appropriating the full amount of the cost at the time of their inception. After the original appropriation, in practice, very little legislative control is exercised over annual expenditures from multiyear appropriations.

Under this bill the President's budget ultimately would be submitted on an annual accrued-cost basis, and appropriations would be made each year to finance the annual cost of contracts entered into pursuant to statutory authority.

I do not contend that this legislation would accomplish all which is desirable for the recapture of congressional control over the annual rate of expenditure of Federal funds. But it would be a step in the general direction of more meaningful appropriation action. It would provide a more practicable control over annual expenditures. It would produce a more tangible relationship with revenue requirements for a given year. It would develop a clearer disclosure of Federal activities on an annual basis. And it would establish Federal operations on a more businesslike basis not only for purposes of revenue and appropriations but also for more effective accounting and auditing.

I hope the bill will pass as a progressive reorganization in Federal fiscal procedures, methods, and techniques which may result in more efficient government at reduced cost to taxpayers.

ADMINISTRATION OF THE RECLAMATION PROJECT ACT OF 1939

Mr. JOHNSON of Texas. Mr. President, I move that the Senate proceed to

S. 3897

AN ACT

84TH CONGRESS
2D SESSION

S. 3897

IN THE HOUSE OF REPRESENTATIVES

JUNE 21, 1956

Referred to the Committee on Government Operations

AN ACT

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 AMENDMENT TO THE BUDGET AND ACCOUNTING ACT, 1921
4 SEC. 1. (a) Section 201 of the Budget and Accounting
5 Act, 1921, as amended (31 U. S. C. 11), is further amended
6 by inserting "(a)" after the words "SEC. 201."; by chang-
7 ing subsection (a) to subparagraph (1); by adding after
8 subparagraph (1) a new subparagraph "(2) at such times
9 as may be practicable, information on program costs and
10 accomplishments"; by changing subsections (b) through

1 (j) to subparagraphs (3) through (11), respectively; and
2 by adding the following new subsections:
3 "(b) The amounts of proposed appropriations referred
4 to in sections 201 (a) and 203 of this Act shall, to the
5 maximum extent deemed desirable and practicable by the
6 President, be determined on an annual accrued expenditure
7 basis.
8 "'Annual accrued expenditures' shall relate to goods
9 and services to be received in a fiscal year, advance pay-
10 ments, progress payments, and such other payments as are
11 authorized by law to be made in such fiscal year.
12 "This subsection shall not apply to appropriations made
13 specifically for the payment of claims certified by the Comp-
14 troller General and of judgments; appropriations for the re-
15 fund of Federal taxes and of other moneys erroneously
16 received and covered into the Treasury of the United States;
17 appropriations made by private relief Acts of Congress;
18 appropriations for the payment of interest on trust funds;
19 revolving funds or appropriations thereto; appropriations for
20 the payment to former members of the Armed Forces, their
21 dependents and beneficiaries, of any benefits to which they
22 are entitled by reason of military service; appropriations for
23 the payment of pensions and annuities; appropriations for
24 the payment of any obligation of the United States for which

1 liability is fixed by treaty; and other appropriations or funds
2 analogous to the foregoing.
3 "(c) The conversion to the use of annual accrued ex-
4 penditures for stating proposed appropriations in accordance
5 with section 201 (b) of this Act shall be accomplished in
6 such manner and at such times as may be determined by
7 the President.
8 "(d) As of the end of each fiscal year, the excess of
9 any appropriation or fund made on an annual accrued ex-
10 penditure basis over the accrued expenditures under such
11 appropriation or fund shall lapse, unless hereafter provided
12 otherwise in an appropriation Act or other law. Any re-
13 maining balances of each such appropriation or fund shall
14 be merged with any appropriation or fund made for the same
15 general purpose for the ensuing fiscal year and shall con-
16 stitute a single account."
17 (b) Section 216 of such Act, as amended (31 U. S. C.
18 24), is further amended by inserting "(a)" after the words
19 "SEC. 216." and by adding the following new subsections:
20 "(b) The requests of the departments and establish-
21 ments for appropriations shall, in such manner and at such
22 times as may be determined by the President, be developed
23 from cost-based budgets.
24 "(c) For purposes of administration and operation, such

1 cost-based budgets shall be used by all departments and
2 establishments and their subordinate units. Administrative
3 subdivisions of appropriations or funds shall be made on the
4 basis of such cost-based budgets."

5 AMENDMENTS TO THE BUDGET AND ACCOUNTING
6 PROCEDURES ACT OF 1950

7 SEC. 2. (a) The Budget and Accounting Procedures
8 Act of 1950 is amended by inserting after section 105
9 thereof the following new section:

10 "ACCOUNTING AND BUDGET CLASSIFICATIONS

11 "SEC. 106. The head of each executive agency shall,
12 in consultation with the Director of the Bureau of the
13 Budget, take whatever action may be necessary to achieve,
14 insofar as is possible, (1) consistency in accounting and
15 budget classifications, (2) synchronization between account-
16 ing and budget classifications and organizational structure,
17 and (3) support of the budget justifications by information
18 on performance and program costs by organizational units."

19 (b) Section 113 of such Act (31 U. S. C. 66a) is
20 amended by adding at the end thereof the following new
21 subsection:

22 "(c) As soon as practicable after the date of enact-
23 ment of this subsection, the head of each executive agency
24 shall, in accordance with principles and standards prescribed

1 by the Comptroller General, cause the accounts of such
2 agency to be maintained on an accrual basis to show the
3 resources, liabilities, and costs of operations of such agency
4 with a view to facilitating the preparation of cost-based
5 budgets as required by section 216 of the Budget and
6 Accounting Act, 1921, as amended. The accounting system
7 required by this subsection shall include adequate monetary
8 property accounting records as an integral part of the
9 system."

10 (c) Section 118 of such Act is amended by inserting
11 "113 (c)" after the words "section 111".

12 SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

13 SEC. 3. Section 3679 (g), Revised Statutes, as amended
14 (31 U. S. C. 665 (g)), is further amended by adding at the
15 end thereof the following sentence: "In order to have a
16 simplified system for the administrative subdivision of appro-
17 priations or funds, each agency shall work toward the
18 objective of financing each operating unit, at the highest
19 practical level, from not more than one administrative sub-
20 division for each appropriation or fund affecting such unit."

Passed the Senate June 20, 1956.

Attest: FELTON M. JOHNSTON,

Secretary.

84TH CONGRESS
2D SESSION

S. 3897

AN ACT

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

JUNE 21, 1956

Referred to the Committee on Government Operations

AN ACT

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 12, 1956
For actions of July 11, 1956
84th-2nd, No. 117

CONTENTS

HIGHLIGHTS: Senate ratified International Wheat Agreement. Senate committees reported the following bills: Farm loan bill. Broaden authority for use and occupancy of land within national forests. Broaden law on practices in marketing perishable commodities. Forest products price reporting. Permit processors to buy cotton futures contracts. Eliminate delay in starting watershed projects. Dispose of Akron synthetic rubber laboratory. Senate received from President supplemental appropriation request for commission on Increased Use of Agricultural Products. (Continued on page 7)

HOUSE

1. FOREIGN AID. Passed with amendments H. R. 12130, the mutual security appropriation bill, by a vote of 120 to 284. The amendments adopted would provide that not less than $15,000,000 of the $35,000,000 for Latin American defense support be used to aid Guatamala, and that no funds contained in the mutual security appropriation bill be used for international educational exchange activities. p. 11180

2. FOREIGN TRADE. Both Houses received from the President the 4th semi-annual report on activities carried on under Public Law 480, 83rd Congress (H. Doc. 447); to the Senate Agriculture and Forestry Committee and the House Agriculture Committee. pp. 11085, 11224

   The Ways and Means Committee reported with amendment H. R. 9396, to amend the Tariff Act of 1930 to place guar seed on the free list (H. Rept. 2681). p. 11235

3. WATER SUPPLY. The Public Works Committee reported without amendment S. 2374, to authorize the Secretary of the Army to enter into contracts to furnish water for municipal water supplies from flood control and river and harbor projects (H. Rept. 2683). p. 11236

4. BUDGETING; ACCOUNTING. The Government Operations Committee ordered reported H. R. 11526, to improve governmental budgeting and accounting methods and procedures. ~~p. D778~~

5. PERSONNEL. The Government Operations Committee ordered reported H. R. 11515, to provide for the payment of travel and transportation cost for persons selected for appointment to certain positions in the U. S. and Alaska. p.D778

6. RECLAMATION. Received the new conference report, subsequent to an order to recommit, on S. 1622, to authorize the Secretary of the Interior to make payment for certain improvements located on public lands in the Rapid Valley unit, S. Dak., of the Missouri River Basin project (H. Rept. 2677). p. 11179

7. ATOMIC ENERGY. The Joint Committee on Atomic Energy ordered reported the following bills: p. D778

H. R. 9743 and S. 2643, to encourage maximum development of atomic energy reactors for the generation of low-cost electric power and the production, utilization, and treatment of special nuclear and other materials.

S. 4203, to amend the Atomic Energy Act of 1954 "(so-called AEC omnibus bill)".

SENATE

8. WHEAT. By a vote of 85 to 2, agreed to a resolution of ratification on the International Wheat Agreement of 1956, extending the Agreement for 3 years. The Agreement covers 303 million bushels of wheat, as compared to 395 million covered in the 1953 Agreement; sets the price range of wheat at $1.50 to $2.00 a bushel, as compared with $1.55 and $2.05 in the 1953 agreement; and adds two new exporting countries - Argentina and Sweden. p. 11102

9. AGRICULTURE AND FORESTRY COMMITTEE reported the following bills: pp. 11090, 11091

H. R. 7723, with amendment, to authorize the Secretary of Agriculture to convey certain lands in Phelps Co., Mo., to the Chamber of Commerce of Rolla, Mo. (S. Rept. 2513);

S. 4059, without amendment, to provide for price reporting and research with respect to forest products (S. Rept. 2510);

H. R. 5337, without amendment, to broaden the provisions of law relating to practices in the marketing of perishable agricultural commodities (S. Rept. 2507);

H. R. 9333, without amendment, to give to certain consuming processors of cotton the privilege of buying cotton futures contracts in certain cases (S. Rept. 2506);

H. R. 9339, without amendment, authorizing the exchange of certain U. S. lands in Union County, Ga., for lands in the Chattahoochee National Forest (S. Rept. 2508);

H. R. 11873, without amendment, to decrease the Congressional review period of projects under the Watershed Protection and Flood Prevention Act from 45 days to 15 days (S. Rept. 2509);

S. 3429, with amendment, to improve and simplify the credit facilities available to farmers and to amend the Bankhead-Jones Farm Tenant Act (S. Rept. 2526);

S. 2216, with amendment, to amend the act of March 4, 1915, to permit the use and occupancy of national forest lands for industrial and commercial purposes, and by States or political subdivisions for constructing facilities for education or other public uses (S. Rept. 2511);

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 16, 1956
For actions of July 13, 1956
84th-2nd, No. 119

CONTENTS

HIGHLIGHTS: Senate passed following bills: Disposal of Akron synthetic rubber laboratory. Permit processors to buy cotton futures contracts. Ready for President. Broaden law on practices in marketing perishable commodities. Eliminate delay in starting watershed projects. Ready for President. Provide for Presidential appointment of Department's legal officers. Extend time for filing Government Security Commission Report. Both Houses received proposed legislation to implement International Wheat Agreement. Senate committee reported bills to: Renew lease to railroad on ARS land in Montana. Extend special school milk program to certain institutions. Senate committee ordered reported bill for humane slaughter methods. Senate committee ordered reported mutual security appropriation bill. Sen. Johnson urged additional drought assistance for livestock industry. House conferees appointed on CCC borrowing increase bill. House passed following bills: Simplify and facilitate (continued on page 6)

HOUSE

1. COMMODITY CREDIT CORPORATION. Conferees were appointed on S. 3820, to increase the borrowing authority of the CCC. Senate conferees were appointed on July 9. p. 11522

2. BUDGETING; ACCOUNTING. Passed with amendment S. 3897, to improve governmental budgeting and accounting methods and procedures. The amendment consisted of the insertion of the language of H. R. 11526, a similar bill, after having passed the House with committee amendments. H. R. 11526 was subsequently laid on the table. p. 11522

Rep McCormack requested and received permission for the Government Operations Committee to file, by Mon. midnight, a report on H. R. 11526. p. 11589

The "Daily Digest" states that the conferees agreed to file a conference report on H. R. 9593, to simplify accounting and facilitate the payment of

obligations. p. D801

3. CONTRACTS. Passed as reported H. R. 11947, to amend and extend (until Jan. 1, 1959) the provisions of the Renegotiation Act of 1951. p. 11550

4. TRANSPORTATION. Passed as reported S. 898, to amend the Interstate Commerce Act so as to authorize ICC to regulate the use by motor carriers (under leases, contracts, or other arrangements) of motor vehicles not owned by them, in the furnishing of transportation of property, but to prohibit regulation of the duration of, the terms of pay under, certain trip-leasing arrangements. p. 11572

5. FARM LOANS. Conferees were appointed on H. R. 11544, to improve and simplify the credit facilities available to farmers, and to amend the Bankhead-Jones Farm Tenant Act. Senate conferees were appointed on July 12. p. 11577

6. MARKETING. Began debate on H. R. 4054, to provide a system of mortgage insurance to municipal and other political subdivisions of the States, to be administered by USDA, for the expansion of public marketing of perishable commodities. p. 11577

7. RECLAMATION; ELECTRIFICATION. Passed with amendment S. 497, to authorize the construction, operation, and maintenance of th Washoe reclamation project, Nev. and Calif. The amendment to S. 497 consisted of inserting the language of H. R. 10643, a similar bill, after having passed the House without amendment. H. R. 10643 was subsequently laid on the table. p. 11582

8. GRAIN STANDARDS. The Subcommittee on Wheat of the Agriculture Committee ordered reported to the full committee S. 1400, to protect the integrity of grade certificates under the U. S. Grain Standards Act by providing penalties for persons who knowingly sample grain improperly and for persons who knowingly load or otherwise handle grain deceptively for inspection under the Act. p. D799

9. FARM LABOR. The Subcommittee on Transportation and Communication of the Interstate and Foreign Commerce Committee ordered reported to the full committee S. 3391, to provide for reasonable requirements regarding comfort, safety, etc., of the interstate transportation of migrant farm workers. p. D800

10. WILDLIFE. The Merchant Marine and Fisheries Committee ordered reported H. R. 8250, to require conformance with State and Territorial fish and game laws and licensing requirements on Federal lands not subject to such laws. p. D800

11. LAND TRANSFER. Agreed to the Senate amendments to H. R. 8817, to provide for the transfer of certain Forest Service land to the city of Corbin, Ky. This bill is now ready for the President. p. 11577

12. LEGISLATIVE PROGRAM. Rep. McCormack announced the following legislative program for July 16 - 20: Mon., Consent calendar and the civil-rights bill; Tues., Private calendar; Wed., Committee Calendar; and balance of the week: AEC appropriation authorization increase, Defense Department point of order bill, marketing facilities bill, and bill to amend Public Law 480, 83d Congress. p. 11589

13. ADJOURNED until Mon., July 16. pp. 11589, 11595

House of Representatives

FRIDAY, JULY 13, 1956

The House met at 12 o'clock noon.

Rev. George Lyon Pratt, rector, Church of the Advent, Los Angeles, Calif., offered the following prayer:

Almighty and everlasting God, who hast laid deep the foundations of this Nation through the examples and lives of Thy servants who have preceded us, grant to all those to whom Thou hast entrusted the authority of government the wisdom to learn from the past those things which have made us great among the nations of the earth and not only the knowledge to understand the needs and demands of our own day, but also the courage and vision to fulfill the same. And then, O Lord, when we shall have served Thee in our generation, may our children and our children's children say: "Our fathers have served us well." All which we ask in Thy name. Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate, by Mr. Carrell, one of its clerks, announced that the Senate had passed without amendment bills, a joint resolution, and concurrent resolutions of the House of the following titles:

H. R. 5838. An act to provide that payment be made to certain members of the Pine Ridge Sioux Tribe of Indians as reimbursement for damages suffered as the result of the establishment of the Pine Ridge aerial gunnery range;

H. R. 6501. An act to amend the act of July 17, 1914, to permit the disposal of certain reserve mineral deposits under the mining laws of the United States;

H. R. 8288. An act to suspend for 2 years the duty on crude bauxite and on calcined bauxite;

H. R. 9137. An act to waive section 142, of title 28, United States Code, with respect to the United States District Court for the Western District of North Carolina holding court at Bryson City, N. C.;

H. R. 9333. An act to amend the Commodity Exchange Act to provide for hedging anticipated requirements of processors and manufacturers;

H. R. 9578. An act to provide for the conveyance of an interest of the United States in and to certain lands in Colorado;

H. R. 10204. An act authorizing the Administrator of General Services to transfer certain land to Richard M. Tinney and John T. O'Connor, Jr.;

H. R. 10269. An act to provide for the temporary suspension of the duty on certain alumina;

H. R. 11000. An act to provide for the striking of medals in commemoration of the 100th anniversary of the birth of the late Justice Louis Dembitz Brandeis;

H. R. 11520. An act to provide for the transfer of certain property situated in the State of Maine to the town of Castine, Maine;

H. R. 11873. An act to amend the Watershed Protection and Flood Prevention Act so as to eliminate delay in the start of projects;

H. R. 11995. An act to provide that the 1955 formula for taxing income of life insurance companies shall also apply to taxable years beginning in 1956;

H. J. Res. 569. Joint resolution to provide for a medal to be struck and presented to each surviving veteran of the War Between the States;

H. Con. Res. 242. Concurrent resolution providing for 10 thousand additional copies of the report entitled "Special Study Mission to the Middle East, South; and Southeast Asia, and the Western Pacific";

H. Con. Res. 243. Concurrent resolution authorizing the printing as a House document of the Constitution of the United States together with the Declaration of Independence, and providing for additional copies;

H. Con. Res. 244. Concurrent resolution to provide for a joint committee of the Congress to represent the Congress at the unveiling of the Commodore John Barry Memorial at Wexford, Ireland, on September 16, 1956;

H. Con. Res. 245. Concurrent resolution authorizing the printing of additional copies of House Report No. 2189, 84th Congress, 2d session;

H. Con. Res. 248. Concurrent resolution authorizing the Joint Committee on Atomic Energy to print 30,000 additional copies of the hearings of the Research and Development Subcommittee on "Shortage of Scientific and Engineering Manpower"; and

H. Con. Res. 251. Concurrent resolution authorizing reprinting of House Document 210 of the 83d Congress.

The message also announced that the Senate had passed, with amendments in which the concurrence of the House is requested, bills and a joint resolution of the House of the following titles:

H. R. 10285. An act to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations, and for other purposes;

H. R. 11683. An act to authorize permanent appointments in the Armed Forces of the United States, and for other purposes; and

H. J. Res. 472. Joint resolution for the relief of certain aliens.

The message also announced that the Senate had passed, with an amendment in which the concurrence of the House is requested, a bill of the House of the following title:

H. R. 11544. An act to improve and simplify the credit facilities available to farmers, to amend the Bankhead-Jones Farm Tenant Act, and for other purposes.

The message also announced that the Senate insists upon its amendment to the foregoing bill, requests a conference with the House on the disagreeing votes of the two Houses thereon, and appoints Mr. ELLENDER, Mr. JOHNSTON of South Carolina, Mr. HOLLAND, Mr. AIKEN, and Mr. YOUNG to be the conferees on the part of the Senate.

The message also announced that the Senate had passed bills of the following titles, in which the concurrence of the House is requested:

S. 300. An act to authorize the construction, operation, and maintenance by the Secretary of the Interior of the Fryingpan-Arkansas project, Colorado;

S. 1696. An act to provide compensation to the Crow Tribe of Indians for certain ceded lands embraced within and otherwise required in connection with the Huntley reclamation project, Montana, and for other purposes;

S. 3779. An act to amend the act of August 27, 1954 (68 Stat. 868), with respect to the Uintah and Ouray Reservation in Utah; and

S. 4146. An act providing for a civilian atomic power acceleration program.

The message also announced that the Senate agrees to the amendments of the House to bills of the Senate of the following titles:

S. 146. An act for the relief of Isabel Tre;

S. 1895. An act for the relief of Anna Maria Fuller; and

S. 3163. An act to amend section 401 (e) of the Civil Aeronautics Act of 1938 in order to authorize permanent certification for certain air carriers operating in Hawaii and Alaska.

The message also announced that the Senate recedes from its amendment to the bill (H. R. 2854) entitled "An act to amend title 18 of the United States Code, so as to increase the penalties applicable to seditious conspiracy, advocating overthrow of Government, and conspiracy to advocate overthrow of Government."

The message also announced that the Senate agrees to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 1622) entitled "An act to authorize the Secretary of the Interior to make payment for certain improvements located on public lands in the Rapid Valley unit, South Dakota, of the Missouri River Basin project, and for other purposes."

The message also announced that the Senate had appointed the Senator from Vermont, Mr. FLANDERS, to be a conferee on the bill (H. R. 5265) entitled "An act to exempt certain additional foreign travel from the tax on the transportation of persons," in lieu of the Senator from Pennsylvania, Mr. MARTIN.

The message also announced that the Vice President has appointed Mr. JOHNSTON of South Carolina and Mr. CARLSON members of the joint select committee on the part of the Senate, as provided for in the act of August 5, 1939, entitled "An act to provide for the disposition of certain records of the United States Government," for the disposition of execu-

tive papers referred to in the report of the Archivist of the United States numbered 57-1.

AUTHORIZING PERMANENT APPOINTMENTS IN THE ARMED FORCES OF THE UNITED STATES

Mr. KILDAY. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 11683) to authorize permanent appointments in the Armed Forces of the United States, and for other purposes, with Senate amendments thereto, and concur in the Senate amendments.

The Clerk read the title of the bill.

The Clerk read the Senate amendments, as follows:

Page 6, line 12, after "law", insert "except service credited under section 103 (A) (1) and (2) of this title."

Page 6, line 14, strike out "sections 509 and 514" and insert "section 514."

Page 13, line 8, strike out "December 7" and insert "December 6."

The SPEAKER. Is there objection to the request of the gentleman from Texas?

There was no objection.

The Senate amendments were concurred in.

A motion to reconsider was laid on the table.

COMMODITY CREDIT CORPORATION

Mr. SPENCE. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (S. 3820) to increase the borrowing power of Commodity Credit Corporation, with House amendments thereto, insist on the House amendments, and agree to the conference asked by the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Kentucky? [After a pause.] The Chair hears none, and appoints the following conferees: Messrs. SPENCE, BROWN of Georgia, PATMAN, RAINS, WOLCOTT, GAMBLE, and TALLE.

GOVERNMENT ACCOUNTING AND PROCEDURE METHODS

Mr. DAWSON of Illinois. Mr. Speaker, I ask unanimous consent for the immediate consideration of the bill (H. R. 11526) to improve governmental budgeting and accounting methods and procedures, and for other purposes.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

Mr. TABER. Mr. Speaker, reserving the right to object, will the gentleman explain the bill?

Mr. DAWSON of Illinois. Mr. Speaker, the bill as amended would have the President's budget contain information on program costs and accomplishments and the development of cost-based budgets for the various departments and agencies. It would provide for the achievement of consistency in accounting and budget classification and the simplification of apportionments. It would also require the accounts of the departments and agencies to be maintained on an accrual basis so that if the Congress at some time in the future should decide on an accrued expenditure budget the necessary accounting foundation will have been laid.

Mr. Speaker, the amendment was proposed upon the suggestion of the chairman of the Committee on Appropriations and the minority member of the Committee on Appropriations. We feel that this is a good bill and should be enacted into law. It will accomplish many benefits as far as cost is concerned in the operation of our Government.

Mr. TABER. Will the bill be presented with the amendment that the committee has agreed on?

Mr. DAWSON of Illinois. Yes. The Senate passed a similar bill, S. 3897, which contains the provision that our amendment dropped out. Of course, it will go to conference, and I am sure in conference the Senate will agree with us that it should have been dropped.

Mr. TABER. That satisfies me.

[Mr. CANNON'S remarks will appear hereafter in the Appendix.]

Mr. ROGERS of Florida. Mr. Speaker, I want to commend the Government Operations Committee of the House, and especially Hon. WILLIAM L. DAWSON, the chairman of the Subcommittee of Executive and Legislative Reorganization, for the splendid work done in reporting out H. R. 11526, to bring about needed changes in the accounting procedures of our Government, which is now before the House. I would also like at this time to state for the record what fine help Majority Leader JOHN MCCORMACK rendered in the consideration of this measure. Also, the Honorable GLENARD LIPSCOMB devoted much time and study to this problem and has been a driving force, along with Congressman DANTE FASCELL, both of whom are members of the Committee of Government Operations. Hearings were quickly held, due to the courtesy of the chairman and members of the committee, and reported to the House so that it might be considered during this session of the Congress.

The bill as I introduced it would carry out the recommendations of the Second Hoover Commission to revise our governmental budgeting and accounting procedures, and would accomplish two broad objectives: First, improve financial administration in the executive branch; and, second, substantially strengthen congressional control over the financial affairs of the Federal Government. It would reform and improve our accounting system by placing our Government accounting and budgeting process on a more realistic and orderly basis, and as introduced, this measure would require that Government agencies prepare their budget estimates on an accrued annual expenditure basis and that budgets be prepared on an accrued cost basis. The measure as introduced was approved by the Bureau of the Budget, the Comptroller General, the Treasury Department, and has been vigorously backed by the Chamber of Commerce of the United States, the General Federation of Women's Clubs, and the Citizens Committee for the Hoover Commission, as well as other organizations. Mr. J. Harold Stewart, Chairman of the Hoover Commission Task Force on Budget and Accounting, has taken a great interest and has been most helpful.

The Government Operations Committee, in deference to the testimony of Congressmen CANNON and TABER of the Appropriations Committee, amended the bill to strike out that portion providing that the budget be submitted on an annual accrued expenditure basis. Of course, this is one of the most vital features of the bill, as introduced, and it is my intention if I am a Member of the 85th Congress, to again introduce legislation to carry out this provision.

However, I do feel that the passage of the legislation in its present form is a step forward in getting into effect a revision of the accounting procedures of our Government and will lay the groundwork for a more businesslike operation of our Government, which will effect great savings.

(Mr. ROGERS of Florida asked and was given permission to revise and extend his remarks.)

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc.—

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting "(a)" after the words "SEC. 201.", by changing subsection (a) to subparagraph (1); by adding after subparagraph (1) a new subparagraph "(2) at such times as may be practicable, information on program costs and accomplishments"; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively; and by adding the following new subsections:

"(b) The amounts of proposed appropriations referred to in sections 201 (a) and 203 of this act shall, to the maximum extent deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis.

"'Annual accrued expenditures' shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

"This subsection shall not apply to appropriations made specifically for the payment of claims certified by the Comptroller General and of judgments; appropriations for the refund of Federal taxes and of other moneys erroneously received and covered into the Treasury of the United States; appropriations made by private relief acts of Congress; appropriations for the payment of interest on trust funds; revolving funds or appropriations thereto; appropriations for the payment to former members of the Armed Forces, their dependents and beneficiaries, of any benefits to which they are entitled by reason of military service; appropriations for the payment of pensions and annuities; appropriations for the payment of any obligation of the United States for which liability is fixed by treaty; and other appropriations or funds analogous to the foregoing.

"(c) The conversion to the use of annual accrued expenditures for stating proposed appropriations in accordance with section 201 (b) of this act shall be accomplished in

such manner and at such times as may be determined by the President.

"(d) As of the end of each fiscal year, the excess of any appropriation or fund made on an annual accrued expenditure basis over the accrued expenditures under such appropriation or fund shall lapse, unless hereafter provided otherwise in an appropriation act or other law. Any remaining balances of each such appropriation or fund shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year and shall constitute a single account."

(b) Section 216 of such act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216." and by adding the following new subsections:

"(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATIONS

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency on accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

(b) Section 113 of such act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such act is amended by inserting "113 (c)" after the words "section 111."

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

Mr. DAWSON of Illinois. Mr. Speaker, I offer a committee amendment.

The Clerk read as follows:

Committee amendment:

Page 1, line 6, after the word "amended" strike out all down to and including "(1);" on line 7.

Page 1, line 8, strike out "(1)" and insert in lieu thereof "(a)."

Page 1, line 9, strike "(2) at such times as may be practicable." and insert in lieu thereof "(b) to the extent deemed desirable and practicable by the President, and at such times and in such manner as he may determine."

Page 1, line 10, strike "subsec-."

Page 2, line 1, strike "tions" and insert in lieu thereof the word "subparagraphs."

Page 2, line 1, strike "(3)" and insert in lieu thereof "(c)."

Page 2, line 1, strike "(11)" and insert in lieu thereof "(k)."

Page 2, line 2, strike "respectively; and by adding the following new subsections:" and insert "respectively."

Page 2, beginning with line 3, strike out all of the language through page 3, line 16.

Page 3, line 21, after the word "shall," insert "to the extent deemed desirable and practicable by the President, and."

Page 3, line 22, after the word "as", insert "he."

Page 3, line 22, after the word "may" delete "be determined by the President," and insert "determine."

Page 3, line 24, after the word "operations," insert "including administrative subdivisions of funds."

Page 3, line 25, after the word "by" delete the word "all."

Page 4, line 1, after the word "establishments" insert the word "concerned."

Page 4, line 1, after the word "subordinate" delete the following: "units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

Page 4, line 17, strike "by organizational units."

Page 4, line 22, after the word "agency" insert the word "concerned."

Page 5, line 2, after the word "of" add the word "such."

Page 5, line 2, after the word "as" strike "re-."

Page 5, line 2, strike "quired by" and insert "may be developed pursuant to."

Page 5, line 12, after the word "to" strike "have."

Page 5, line 13, strike "a simplified system for" and insert in lieu thereof "achieve simplification in."

Page 5, line 15, after the word "operating" strike "unit, at the highest."

Page 5, line 16, strike "practical level, from not more than one" and add the words "unit through minimum."

Page 5, line 16, after the word "administrative" strike "sub-."

Page 5, line 17, strike the word "division" and add in lieu thereof "subdivisions consistent with operational requirements."

The committee amendment was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

Mr. DAWSON of Illinois. Mr. Speaker, I ask unanimous consent for the immediate consideration of the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

Mr. HOFFMAN of Michigan. Mr. Speaker, reserving the right to object, does that do away with the conference?

Mr. DAWSON of Illinois. No; it does not. This is to expedite it.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc.—

AMENDMENT TO THE BUDGET AND ACCOUNTING ACT, 1921

SEC. 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting "(a)" after the words "SEC. 201."; by changing subsection (a) to subparagraph (1); by adding after subparagraph (1) a new subparagraph "(2) at such times as may be practicable, information on program costs and accomplishments"; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively; and by adding the following new subsections:

"(b) The amounts of proposed appropriations referred to in sections 201 (a) and 203 of this act shall, to the maximum extent be deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis.

"'Annual accrued expenditures' shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

"This subsection shall not apply to appropriations made specifically for the payment of claims certified by the Comptroller General and of judgments; appropriations for the refund of Federal taxes and of other moneys erroneously received and covered into the Treasury of the United States; appropriations made by private relief acts of Congress; appropriations for the payment of interest on trust funds; revolving funds or appropriations thereto; appropriations for the payment to former members of the Armed Forces, their dependents and beneficiaries, of any benefits to which they are entitled by reason of military service; appropriations for the payment of pensions and annuities; appropriations for the payment of any obligation of the United States for which liability is fixed by treaty; and other appropriations or funds analogous to the foregoing.

"(c) The conversion to the use of annual accrued expenditures for stating proposed appropriations in accordance with section 201 (b) of this act shall be accomplished in such manner and at such times as may be determined by the President.

"(d) As of the end of each fiscal year, the excess of any appropriation or fund made on an annual acrued expenditure basis over the accrued expenditures under such appropriation or fund shall lapse, unless hereafter provided otherwise in an appropriation act or other law. Any remaining balances of each such appropriation or fund shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year and shall constitute a single account."

(b) Section 216 of such act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216," and by adding the following new subsections:

"(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATIONS

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

(b) Section 113 of such act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such act is amended by inserting "113 (c)" after the words "section 111."

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

Mr. DAWSON of Illinois. Mr. Speaker, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. DAWSON of Illinois: Strike out all after the enacting clause of S. 3897 and insert the provisions of H. R. 11526 as passed.

The amendment was agreed to.

Mr. LIPSCOMB. Mr. Speaker, I am pleased to support this bill which will improve budget and accounting methods and procedures in the Federal Government.

Since significant events have transpired in connection with the subject matter of this proposal since the introduction of bills on this subject, I believe that it would be well to review briefly the background of this proposal.

The report of the Second Commission on Organization of the Executive Branch of the Government—Hoover Commission—with respect to Budget and Accounting was transmitted to the Congress by Hon. Herbert Hoover, Chairman of the Commission, on June 20, 1955.

During February 1956, I introduced in the House a bill, H. R. 9402, to put into effect the majority of the Commission's recommendations on budget and accounting.

The House Government Operations Subcommittee on Executive and Legislative Reorganization held hearings on H. R. 9402 and comparable bills during May and June 1956. It was my privilege to appear before the subcommittee in support of the bill which I had introduced. Hon. WILLIAM L. DAWSON, chairman of the House Government Operations Committee and also its subcommittee which considered this legislation, graciously permitted me to participate in the subcommittee's hearings on both the bill which I had introduced and on this legislation sponsored by Hon. PAUL G. ROGERS, of Florida.

At these hearings representatives of the Bureau of the Budget, the General Accounting Office, the Department of the Treasury, and the Department of Defense testified extensively with respect to the views of the executive branch of the Government concerning this proposed legislation. In addition, Mr. J. Harold Stewart, former Chairman of the Hoover Commission's Task Force on Budget and Accounting, presented his views to the committees.

On April 29, 1956, the White House released an exchange of correspondence between the President and Hon. Percival F. Brundage, Director of the Bureau of the Budget, revealing that steps had already been taken by the Bureau of the Budget and by some of the departments of the executive branch of the Government to put into effect administratively some of the recommendations of the Hoover Commission with respect to budget and accounting.

On May 10, 1956, the President, in a special message to the Congress, urged that the Congress seek the early enactment of appropriate legislative provisions to support the major objectives of the Hoover Commission's recommendations on budget and accounting. In this message the President reviewed briefly the administrative action already taken, and said:

The actions being taken by the executive branch to put many of the Commission's proposals into effect will require close coordination with the legislative branch and merit the support which the Congress should and can provide. I urge that the Congress seek the early enactment of appropriate legislative provisions to support the main objectives of the Commission's recommendations.

Since the passage of the Budget and Accounting Act of 1921, much has been said and written about the Federal budget process. In the 35 years since the adoption of that act a great deal of progress has been made in improving Federal fiscal procedures. If the size and nature of the Federal Government had remained at the 1921 level, today's budget processes would probably be adequate. But today the size and complexity of the operations of the Government have grown many fold since 1921, and the annual budget of some $60 billion is an amount undreamed of in 1921.

That the present fiscal system has serious shortcomings is rather unanimously agreed by all authorities in the field. As to agreement on particular shortcomings there is not so much unanimity, and with regard to possible corrective measures there is reasonable agreement on certain approaches and some disagreement on others.

The decade since the end of World War II has seen a growing demand for modernization of the budget process, and some progress has been made such as the Government Corporation Control Act of 1945, which placed the operations and accounting of Government corporations on a business-type system; the 1949 amendment to title IV of the National Security Act of 1947, which provided for performance budgeting in the Department of Defense; and the Budget and Accounting Procedures Act of 1950, which carried out some of the recommendations of the first Hoover Commission, and took some major steps toward revitalizing the budget process.

Despite the fact that the record shows considerable progress, we still have a long way to go. There have been many proposals made which would purport to improve our fiscal system, with each receiving varying degrees of support from fiscal experts, both in and out of the Government. Naturally some have more merit than others. On several of the major proposals there is substantial agreement on the general plan, but serious disagreement on the manner of implementation. A great many of these proposals, most of which appear to have merit in the long run, are in the field of procedural changes such as the proposals for an omnibus appropriation bill coupled with the item veto, and changes in the organizational structure of Congress to provide for more coordinated consideration of appropriation and revenue measures. In addition, there are many other recommendations worthy of the most careful consideration as long range methods of improving the fiscal performance of our Government as a whole. There is probably no panacea for all of our problems in the area of fiscal performance and responsibility, but there certainly must be a logical starting point, and only by starting at the proper place can we hope to achieve the goals toward which all of us believe we should work.

It would seem that the starting point is the development of sound, accurate, meaningful, useful fiscal data which could be generated from an adequate and efficient budget and accounting system. Until we put the fiscal operations of the Government on such a system, all the desirable procedural changes in the world will have only minimum effectiveness.

It would seem that the budget and accounting recommendations of the Second Hoover Commission in its 1955 report to the Congress on budget and accounting provide one of the best comprehensive feasible approaches to the problem. The omnibus bill which I introduced in the House was intended to

be a single omnibus bill including all of the Hoover Commission's recommendations on budget and accounting that appeared to be feasible to adopt at this time.

I strongly urge the enactment of this legislation because I believe such legislation will make possible more effective congressional control over Government expenditures. Such legislation would do this by providing for cost-based accounting and cost-based budgeting throughout the Government.

The bill amends the Budget and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950 so as to improve Federal budgeting and accounting methods and procedures as recommended by the Commission on Organization of the Executive Branch of the Government, to permit: First, the inclusion of program costs and accomplishments in the annual budget; second, the agencies to prepare and execute their budgets on a cost basis; third, the head of each agency to bring about consistency between accounting and budget classifications; fourth, the synchronization of the accounting and budget classifications with the organization structure; fifth, support of the budget justifications by information on performance and program costs by organizational units; sixth, each agency to maintain its accounts on an accrual basis showing resources, liabilities, and operating costs; seventh, the integration of property accounting records with the financial accounting system; and eighth, the simplification of agency systems for subdividing funds.

The General Accounting Office, in its comments on this legislation, points out that the primary advantage of budgeting on a cost basis to both management officials in the agencies and the Congress is that total resources to be used—on hand, on order, and to be procured—are reviewed, rather than limiting the budget review processes to primary consideration of the programs and projects for which new appropriations are being requested. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures, and costs in those many operations primarily concerned with personal services. On the other hand, dollar wise, the greatest significance should be attached to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets representing the major portion of Government expenditures. Major procurement, construction, and research and development ordinarily fall in this latter category of major expenditures, and it is in these areas that budgeting on a cost basis would produce major savings, although the adoption of cost-based budgeting would improve financial management in many other areas also.

The Congress, by enactment of the Budget and Accounting Procedures Act of 1950, took a significant step forward in providing for the use of program or performance budgets by the executive agencies of the Government. The objective of that law was to have the Government departments show how they intended to spend their money on the basis of the major programs that the agencies carry out. To make such a budget effective and meaningful, Government accounts must be kept on a cost basis and not merely on an obligations basis. The agencies must be able to tell what a given program has cost in a given fiscal year, and not merely how much appropriated funds have been spent in a given fiscal year. Only with adequate accrual cost-based accounts can a budget be developed that will show how much a given program is likely to cost in a given fiscal year. Thus the enactment of legislation of this type, in my opinion, is a necessary step to make thoroughly effective the Budget and Accounting Procedures Act of 1950.

If the Congress, made up of the chosen representatives of the American people, is to exercise any constitutional degree of effective control over the executive branch, it must be in a position to control the amount of money to be expended by it. Effective control over the purse is one of the most important devices available to the Congress for protecting the American people from the potentiality of irresponsible expenditures.

A few of the Hoover Commission's recommendations for budget and accounting were omitted from this legislation for various reasons.

The most obvious recommendation which is not implemented in the House version is recommendation No. 7 which would put the executive budget and congressional appropriations in terms of annual accrued expenditures. It was thought that this would require changing the present manner of handling long lead time programs, such as major procurement and construction contracts, primarily in the Department of Defense, and that enactment of such a measure would necessarily be better deferred until development of a basic foundation and adequate accounting and an ability to program and report to the Congress more effectively.

One or two other recommendations were omitted because they were considered to require the development of adequate systems before they would have any effect.

Hoover Commission recommendation No. 8 relating to limitations upon legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control was omitted because, other than as a hopeful statement of policy, no measures short of constitutional amendment could effectively bind future Congresses to such a policy.

Hoover Commission recommendation No. 18, which would relieve the General Accounting Office of the need to approve claims on lapsed appropriations, was omitted because of the pendency of separate legislation on this matter before Congress.

Hoover Commission Recommendation No. 19, which would allow the Comptroller General to relieve accountable officers of financial liability except where losses result from gross negligence or fraud, was omitted because it was felt that the present provisions of Public Laws 334 and 365, 84th Congress, are adequate to provide relief of the nature intended.

Several significant provisions originally included in H. R. 9402, the bill which I introduced, were not included in the bill now before the House. Most of these provisions were omitted because the Bureau of the Budget informed the committee that it believed no legislative authority was required to insure their implementation. Even though this may be true, I believe that it would have been in the public interest to have a legislative declaration indicating that Congress desired these things to be done.

For example, section 1 (a) of H. R. 9402, would have directed the Director of the Bureau of the Budget to prepare comprehensive reports showing the factual results of the activities of the departments and establishments. Similarly, section 1 (b) would have directed that subordinate operating units of departments and establishments should submit quarterly performance reports. Further, section 1 (b) would also have amended section 216 (b) of the Budget and Accounting Act of 1921 to provide that the budget contain information on program costs and accomplishments. All of these provisions were omitted from the present bill because the Bureau of the Budget considered that it had plenty of authority to do these things and stated that it was the present policy of the Bureau to carry out these recommendations without legislation.

Section 1 (c) of H. R. 9402 would have provided that the Director of the Bureau of the Budget should assign personnel from that Bureau to serve in the departments and agencies to aid in the preparation and review and administration of their budgets. The Bureau of the Budget stated that it believed that this procedure was desirable, but that it considered that the objectives could be achieved if the Bureau staff were enlarged and if measures are invoked to increase substantially the provision of staff time spent in on-site reviews of agency operations. Again, the Bureau of the Budget considered that it had plenty of authority to perform these operations if it were granted increased staff.

Section 2 (c) of H. R. 9402 would have provided for an amendment to section 119 of the Budget and Accounting Procedures Act of 1950 providing for the creation of a Staff Office of Accounting. The Bureau of the Budget in its statement on April 29 asserts that it has already appointed an Assistant Director to deal specifically with accounting problems and that, as a consequence, no legislation is needed.

Section 2 (c) of H. R. 9402 would also have provided that section 121 (a) of the Budget and Accounting Procedures Act of 1950 should be amended to provide for the appointment of comptrollers in the major departments and establishments. The Bureau of the Budget believes that the controllership function should be performed in all departments and agencies but that it is undesirable and unnecessary that legislation be enacted to create specific offices of this type in all departments and agencies. It believes that most department heads have the authority to organize the comp-

trollership functions within their establishments under existing laws.

Section 5 of H. R. 9402 would have provided that the Director of the Bureau of the Budget and the Comptroller General jointly make a study to determine whether duplicate accounts exist within the Treasury and whether there is duplication between the accounts of the Treasury and those of other departments. The Treasury Department contends that there is now no duplication within its own accounts. The Bureau of the Budget and the Treasury Department assert that whatever duplication that might have existed between the Treasury accounts and those of departments and agencies is being eliminated. This section also would have provided that these two officials jointly should study the adequacy of internal auditing within departments and agencies. The Bureau of the Budget asserts that the Joint Program for the Improvement of Accounting in the Federal Government is in a position to make such studies and will make such studies. Therefore, the Bureau of the Budget stated that it believed this language was unnecessary.

I agree with the general theory that legislation should not unnecessarily encumber and restrict the administrative mechanisms and practices and procedures which are in many instances best left to the considered discretion of the executive branch of the Government. I believe, however, that the performance of essentially all of the functions enumerated which were included in H. R. 9402 but omitted from the present bill are important to the complete and most effective implementation of the present legislation.

Therefore, I would urge that the Members of the Congress, and particularly the appropriate committees of the Congress, continue to follow closely the actions of the Bureau of the Budget and the General Accounting Office to insure that they actually exercise effectively and in timely fashion the authority which they assert they already have to perform the various functions enumerated in H. R. 9402 but omitted from the present bill because of the assurances received from these agencies.

In view of the need for improved fiscal performance, the savings in the cost of operation of the Government to be realized through efficient financial management, and the need to put the Federal budget on a basis so that Congress can more intelligently make the important policy determinations as to the extent and scope of Federal programs, I strongly urge that the House take favorable action on this legislation which is of such prime importance to every citizen. Taking the steps included in this bill will put the Congress in a better position to properly analyze the budget itself and to better consider the appropriation bills covering the projected operations of the many departments and agencies of our Government.

I believe that favorable House action upon this legislation will be a logical and necessary step to further the objectives of the Budget and Accounting Procedures Act of 1950.

I commend the Committee on Government Operations and the House for the interest and concern being shown in the constructive consideration of this type of legislation.

The bill was ordered to be read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

The proceedings whereby H. R. 11526 was passed were vacated and that bill laid on the table.

LEAVE TO EXTEND

Mr. CANNON asked and was given permission to extend his remarks following those of Mr. DAWSON of Illinois.

NEED TO EXTEND MILITARY HOUSING PROGRAM

(Mr. ADDONIZIO asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. ADDONIZIO. Mr. Speaker, failure to extend the military housing program could have grave consequences in terms of our national security. General LeMay and other competent spokesmen for the military have emphasized that decent housing is essential to attract and retain key career military personnel.

Unless we have general housing legislation this year, the title VIII military housing program will expire September 30, 1956. This would be a national calamity and it must not be allowed to occur.

In its recent action tabling H. R. 11742, the general housing bill, the Rules Committee—those members who voted to table—were, I am told, motivated by a distaste for the public housing provisions contained in the bill.

Now I realize that public housing is a controversial subject. But I am also sure that the provision of adequate housing for the military is not a controversial subject.

Section 601 of H. R. 11742 would extend the title VIII military housing program for a 3-year period. It would increase the size of the program from 100,000 units to 150,000 units. It would also raise the permitted average cost per dwelling unit so that the military can build the desirable housing which it needs.

It would be unthinkable to let the military housing program come to an end merely because there is objection to a single section of a bill which after all is an omnibus bill extending and improving a dozen or more essential housing programs.

It is my sincere hope that the action of the Rules Committee can be reconsidered so that the general housing bill can be given a green light for floor debate. Apart from public housing, the many other essential housing programs, and particularly the military housing program, are essential to the national welfare.

INACCURATE NEWSPAPER REPORTING

(Mr. WILSON of Indiana asked and was given permission to address the House for 1 minute, to revise and extend his remarks and to include a comment by the Honorable WILLIAM G. BRAY, of Indiana.)

Mr. WILSON of Indiana. Mr. Speaker, on July 11 there appeared an article in the Cincinnati Enquirer quoting my political opponent in the coming November elections as saying, in part:

> Only last week, according to newspapers, he—

Meaning Congressman WILSON—

> was absent—not voting—on the veterans' bill.

Actually, Mr. Speaker, I was present and voting on that measure. First, I voted against the motion to recommit the bill which, we all know, was the critical vote since the recommital motion was intended to kill the bill. Immediately following defeat of this motion came the vote on final passage of the measure. I voted "aye," or in favor of passage.

Unfortunately, the CONGRESSIONAL RECORD covering activities of the Congress on June 27, the day of the veterans' pension bill vote, erroneously recorded me as "not present" when the pension bill was voted upon. This error was corrected in the permanent RECORD, and on July 3 the error was noted in the CONGRESSIONAL RECORD.

Mr. BRAY. Will the gentleman yield?

Mr. WILSON of Indiana. I yield to my colleague from Indiana,

Mr. BRAY. Mr. Speaker, I am glad to corroborate the statement just made by my colleague, Mr. WILSON. On that day I was sitting alongside Mr. WILSON in this Chamber and we both voted "aye" on final passage of the bill, and the permanent RECORD so shows.

Mr. WILSON of Indiana. Thank you, Mr. BRAY. My record in favor of veterans' legislation is 100 percent. I want to keep it that way.

CORRECTION OF THE RECORD

Mr. HOFFMAN of Michigan. Mr. Speaker, I ask unanimous consent that from the remarks I made yesterday, that appeared in the CONGRESSIONAL RECORD of July 12, page 11376, following the word "body" in the 20th line from the bottom of the page, third column, the next 20 words may be stricken.

Also I ask unanimous consent to include certain remarks in the RECORD on page 11355 immediately preceding the motion which was offered. I may say that I had permission yesterday to extend the remarks, but, for some reason, perhaps inadvertently, they were omitted.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

I cannot say that the bills will necessarily be called in the order I have given.

Any further program of course will be announced later.

Conference reports may be brought up at any time.

POLISH CITIZENS OF LOWELL, MASS.

The SPEAKER. Under the previous order of the House, the gentlewoman from Massachusetts [Mrs. ROGERS] is recognized for 5 minutes.

Mrs. ROGERS of Massachusetts. Mr. Speaker, I received the following letter from the White House today:

THE WHITE HOUSE,
Washington, July 13, 1956.

The Honorable EDITH NOURSE ROGERS,
House of Representatives,
Washington, D. C.

MY DEAR MRS. ROGERS: On behalf of the President, I am pleased to acknowledge your July 10th letter and enclosure. I hope you will convey to the Polish citizens of Lowell, Mass., who signed the resolution the assurance that they are not alone in their concern over the treatment accorded those who took part in the Poznan uprising. Our Government's policies and actions have been aimed at being as helpful as they can to those who have suffered in this difficult situation, and the resolution has been brought to the attention of those in the executive branch most directly concerned. Your courtesy in bringing this important communication to the President's personal attention is much appreciated.

With kindest regard,
Sincerely,

BRYCE N. HARLOW,
Administrative Assistant to the President.

EXPRESSION OF APPRECIATION TO SECRETARY WILSON

Mrs. ROGERS of Massachusetts. Mr. Speaker, in the closing days or weeks of the Congress I would like to express my appreciation to Mr. Wilson, Secretary of National Defense, and to the Army and the Air Corps. To them I extend my very deep appreciation for their cooperation during this last year. I do not know what my district and I would have done without them.

HON. CARLOS P. ROMULO

(Mr. ROBSION of Kentucky asked and was given permission to address the House for 1 minute and to include an address by General Romulo.)

Mr. ROBSION of Kentucky. Mr. Speaker, Bellarmine College, one of our country's institutions of learning that is making its mark in our educational world, a few days ago awarded its second annual Bellarmine Medal to Gen. Carlos P. Romulo, Philippine Ambassador to the United States. In announcing the award of the medal, the president of Bellarmine College, Msgr. Alfred F. Horrigan, said in a press release:

The Bellarmine medal for 1956 will be presented to Carlos P. Romulo, Ambassador from the Philippines to the United States. The presentation ceremonies will take place on June 26, 1956, at a civic dinner scheduled for the Flag Room of the Kentucky Hotel.

The Bellarmine medal award was established by Bellarmine College last year. It is named for St. Robert Bellarmine, patron of the college. Its purpose is to honor annually a person who, on the national or international scene, has exemplified in a special manner the qualities of justice, charity and temperance in dealing with difficult and controversial problems.

These qualities marked in an extraordinary degree the character of Robert Bellarmine. He lived in the turbulent and controversial 16th century. He was deeply involved in many of the central controversies of his day. His dispassionate devotion to truth, his mildness in debate, his fairness to opponents won for him universal acclaim.

The Bellarmine medal was awarded for the first time last spring. Its recipient was Jefferson Caffery, often referred to as the dean of the United States diplomatic corps. Shortly before receiving the Bellarmine medal last year, he concluded a 44-year career in the Foreign Service by resigning as American Ambassador to Egypt.

The presentation ceremony dinner honoring Ambassador Romulo on June 26, will be sponsored by the Bellarmine College Board of Overseers. The present officers of the board are Mr. B. J. Lenihan, Mr. William P. Kelly, and Mr. Bart A. Brown, Sr. Guests of honor at the dinner will include public officials of the State and local community and representatives of other institutions of higher learning.

Ambassador Romulo has enjoyed an extraordinary career as an editor, newspaperman, author, lecturer, soldier, and diplomat. He has received an almost unprecedented variety of awards from universities, foundations, and governments.

The great "cause" in his life has been the promotion of world peace and international understanding. For this cause he has fought with sword, pen, and the spoken word. His work and influence in the United Nations have been acclaimed throughout the world. He has been and remains one of the chief media of constructive contact and interpretation between East and West.

The moral and spiritual incentives of Ambassador Romulo's life were illuminated in a particular way in San Francisco in 1945, when he made a valiant effort to win agreement for the policy of opening United Nation's sessions with prayer.

Despite his outstanding accomplishment as a journalist and author, many observers feel that it is as an orator that Ambassador Romulo has made the greatest impact on our times. He is universally recognized as one of the most notable public speakers of this generation.

Having addressed 14,000 people at a convention in Cleveland, he received one of the greatest ovations accorded to a speaker in the history of that community. To tell the story of the fall of Bataan, he made a 99,000-mile speaking tour throughout the United States.

In the years before the outbreak of World War II, Mr. Romulo was engaged in editorial and publication work in Manila. In 1942 he won the Pulitzer prize in journalism for distinguished correspondence, a series of articles written on a trip through the Far East just before the war.

During the war, he served as General MacArthur's aide-de-camp on Bataan, Corregidor and Australia. He was promoted to brigadier general in September 1944. He also accompanied General MacArthur in the invasion of Leyte and in the recapture of Manila.

This year's Bellarmine medalist held posts in the cabinets of Philippine Presidents Quezon, Osmena, Roxas, and Quirino. Between 1945 and 1954, he was chief of the Philippine Mission to the United Nations. In 1949 and 1950, he was President of the Fourth General Assembly of the U. N.

APPOINTED AMBASSADOR

In February 1954 he was appointed special and personal envoy of the President of the Philippines to the United States. He resigned this position on September 23, 1955. The next day he was appointed Ambassador to the United States.

Ambassador Romulo has been awarded honorary degrees by 27 universities, including the University of Athens, Temple, Notre Dame, Manhattan College, Harvard, and Boston College. He was nominated for the Nobel peace prize in 1951 and 1953.

He is the author of seven widely acclaimed books written in English. Among them is his famous I Saw the Fall of the Philippines, Crusade in Asia, and his latest, The Meaning of Bandung.

Business and civic leaders of the community are being invited by the college board of overseers to serve as members of the committee of sponsors for the June 26 presentation dinner.

General Romulo delivered on that occasion the following address which I include as part of the RECORD. During the week when he received this medal from Bellarmine College, General Romulo was also honored by Denison University, in Granville, Ohio, and by the University of San Francisco, in California, when each university conferred on him the degree of doctor of laws, and by Bucknell University, in Lewisburg, Pa., which conferred on him the degree of doctor of civil law.

ADDRESS DELIVERED BY GEN. CARLOS P. ROMULO, PHILIPPINE AMBASSADOR TO THE UNITED STATES, UPON BEING AWARDED THE BELLARMINE MEDAL, BELLARMINE COLLEGE, LOUISVILLE, KY., TUESDAY, JUNE 26, 1956

I am thrice honored today. You have honored me by asking me here to speak in this great institution of learning where our true faith is taught. You have honored me by awarding me the Bellarmine medal, and Robert Bellarmine stood out in the sixteenth century as a great scholar, a profound philosopher, and a divinely inspired theologian. You have honored me by choosing me as the succeeding recipient of the medal last year awarded to Ambassador Jefferson Caffery, dean of American diplomats.

Diplomacy is an unusual, vital, and important art. And my good friend Ambassador Caffrey is an artist of diplomacy of the first rank. The knowledge, astuteness and flexibility he possesses in such an unusual degree have served the cause of peace and freedom during his 44-year career in American foreign service.

Heart, sympathy, understanding. Without these no diplomat can serve his nation. Ambassador Caffery has all these in abundance and I feel that to be chosen the second recipient of the Bellarmine medal, after Ambassador Caffery, is an unusual tribute primarily to my country and secondarily to its servant.

The need for good diplomats and good diplomacy is greater than ever in these days of world turmoil.

The 20th century is essentially one of struggle for man's freedom. It is the century of millions seeking and attaining freedom from outworn imperialisms. It is the century of man already free beating back threats to freedom, justice, human dignity and the right to make his decision in a democratic society.

World War II marked the greatest physical struggle of man to defeat tyrannies that would make him a slave in spirit as well as in body.

The totalitarianism of fascism, of nazism, of Japanese militarism was finally broken only after the most horrible war in man's history. Since the end of World War II we

eign country, captured by a hostile force, beleaguered by a hostile force, or beseiged by a hostile force as a result of the performance of prescribed duty ordered by competent authority: *Provided*, That notwithstanding any other provision of law, such entitlement to pay and allowances shall not be denied, in the case of any member of the Philippine Scouts who was captured in the Philippine Islands by the enemy during World War II, solely on the ground that such member was paroled and permitted to return to his home and engage in civilian pursuits prior to the termination of the Japanese occupation of such islands. Claims of members of the Philippine Scouts for pay and allowances under this section (whether or not such claims have been presented and rejected or disallowed) may, until 3 years after the date of enactment of this act, be presented for consideration or reconsideration and payment under this section."

(c) Section 9 is amended by the addition of a subsection (a) to read:

"SEC. 9. (a) A dependent of any person in active service, as defined by this act, is a 'person' under this act for the sole purpose of determining status as provided in sections 5 and 9, and any determination under those sections by the head of the department concerned shall be conclusive on all other departments of the Government: *Provided*, That nothing in this section shall be construed as conferring upon any dependent any right to pay allowances, or other compensation to which not otherwise entitled."

(d) Section 12 is amended to read:

"SEC. 12. The dependents and household and personal effects of any person in active service (without regard to pay grade) who is officially reported as dead, injured, missing for a period of 30 days or more, interned in a foreign country, or captured by a hostile force, may be moved (including packing, crating, drayage temporary storage, and unpacking of household and personal effects) to the official residence of record for any such person or to the residence of his dependent, next of kin, or other person entitled to receive custody of the effects in accordance with regulations issued by the head of the department concerned; or, upon application by such dependent, next of kin, or other person, or upon the person's application if injured, to such other location as may be determined in advance or subsequently approved by the head of the department concerned or by such persons as he may designate. When the head of the department concerned determines that an emergency exists and that such sale would be in the best interests of the Government, he may provide for the disposition of the motor vehicles and other bulky items of such household and personal effects of the person by public or private sale. Prior to any such sale, and if practicable, a reasonable effort shall be made to determine the desires of the interested persons. The net proceeds received from such sale shall be transmitted to the owner or to other persons in accordance with regulations issued by head of the department concerned; but if there be no such persons or if such persons or their addresses are not ascertainable within 1 year from the date of sale, the net proceeds may be covered into the Treasury as miscellaneous receipts. Claims for net proceeds which are covered into the Treasury under the authority of this section may be filed with the General Accounting Office by the rightful owners, their heirs or next of kin, or their legal representatives at any time prior to the expiration of 5 years from the date the proceeds are covered into the Treasury; and, if so filed, the General Accounting Office shall allow or disallow the claim. If claims are not filed prior to the expiration of 5 years from the date the proceeds are covered into the Treasury, they shall be barred from being acted on by the courts or the General Accounting Office. The provisions of this section shall not be construed as amending or repealing the act of March 29, 1918 (ch. 31, 40 Stat. 499); section 1, subchapter II of the act of June 4, 1920 (ch. 227, 41 Stat. 809), as amended; the act of February 21, 1931 (ch. 268, 46 Stat. 1203), as amended; the act of December 28, 1945 (ch. 597, 59 Stat. 662), as amended; the Federal Tort Claims Act (60 Stat. 842–847), as amended; the act of April 14, 1949 (ch. 50, 63 Stat. 44); or section 507, title 14, United States Code. The head of the department concerned is authorized to store the household and personal effects of the person until such time as proper disposition can be made. The cost of such storage and transportation, including packing, crating, drayage, temporary storage and unpacking of household and personal effects, shall be charged against appropriations currently available. In lieu of transportation authorized by this section for dependents, the head of the department concerned may authorize the payment in money of amounts equal to such commercial transportation costs or a monetary allowance in lieu of transportation as authorized by law for the whole or such part of travel for which transportation in kind is not furnished, when such travel shall have been completed. When the person is in an 'injured' status, the movement of dependents or household and personal effects provided for herein may be authorized only in cases where the anticipated period of hospitalization or treatment will be of prolonged duration. No transportation shall be authorized pursuant to this section upon application by dependents unless a reasonable relationship exists between the condition and circumstances of the dependents and the destination to which transportation is requested. Beginning June 25, 1950, and for the purposes of this section only, the terms 'household and personal effects' and 'household effects' may include, in addition to other authorized weight allowances, not to exceed one privately owned motor vehicle, shipment of which at Government expense is authorized in those cases where the vehicle is located outside the continental limits of the United States or in Alaska."

(e) Section 15 is amended to read:

"SEC. 15. This act, except sections 13, 16, and 17, is effective from September 8, 1939."

SEC. 2. The amendments made by this act shall be effective upon the date of enactment.

With the following committee amendments:

On page 1, line 7, following the word "departments", add:

"Who are citizens or nationals of the United States, or who are aliens who have been admitted to the United States for permanent residence."

On page 2, line 18, after the word "same", delete the words "pay and allowances" and insert "basic pay, special pay, incentive pay, basic allowance for quarters, and basic allowance for subsistence."

On page 2, line 24, after the word "act." add a new sentence as follows: "For the purposes of the benefits prescribed herein the person who is performing wartime training duty or other wartime duty without pay, or in active duty training with or without pay, shall be treated as though he had been entitled to receive the active duty pay and allowances of his grade at the beginning of and for the period in which he is carried or determined to be in a missing status.

On page 6, line 2, after the word "claim", add a new sentence as follows: "When such claim is allowed it shall be paid from the appropriation for refunding moneys erroneously received and covered."

The committee amendments were agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

PROGRAM FOR WEEK OF JULY 16

(Mr. ARENDS asked and was given permission to proceed for 1 minute.)

Mr. ARENDS. Mr. Speaker, I take this time to ask the majority leader about the program for next week and what is going to happen tomorrow.

ADJOURNMENT TO MONDAY

Mr. McCORMACK. With the gentleman's permission I will now ask unanimous consent that when the House adjourns today it adjourn to meet on Monday next.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

CALENDAR WEDNESDAY

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that business in order on Calendar Wednesday next week may be dispensed with.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

Mr. WILLIAMS of Mississippi. Mr. Speaker, I object.

COMMITTEE ON GOVERNMENT OPERATIONS

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that the Committee on Government Operations may have until midnight Monday to file a report on the bill H. R. 11526.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

PROGRAM

Mr. McCORMACK. Monday, Tuesday, Wednesday, Thursday, Friday, and Saturday:

Monday: Consent Calendar and the civil-rights bill. There will be 2 days of general debate on the civil-rights bill and consideration of that bill will proceed to final action with the exception that on Tuesday the Private Calendar will be called.

Wednesday, the Calendar of Committees will be called unless dispensed with before that time.

The following bills are programed for the week:

H. R. 11709, increase authorization of appropriation for Atomic Energy Commission.

H. R. 7992, legislative authorization Defense Department—point of order bill.

H. R. 4050, marketing facilities, perishable commodities.

H. R. 8000, amend section 610 Civil Aeronautics Act of 1938.

H. R. 11708, amend Agriculture Trade Development and Assistance Act.

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 17, 1956
For actions of July 16, 1956
84th-2nd, No. 120

CONTENTS

HIGHLIGHTS: House passed bills to: Permit USDA-State-local employee exchanges; authorize acquisition of additional lands in Cache National Forest; approve Middle Atlantic interstate forest fire compact; release certain Tongass Forest receipts from escrow; continue ACP authority; authorize transfer of certain ARS lands in Alaska; extend time for report on Government security program. House received conference report on bill to simplify accounting procedures and facilitate payment of obligations. House committee reported bill to improve budgeting and accounting methods. House agreed to Senate amendments to bill to merge intermediate credit banks and production credit associations. House received President's veto message on military construction measure; House committee reported bill to include cranberries for canning and freezing in Marketing Agreements Act. House committee reported bill to require conformance with State game laws on certain Federal lands. House committee reported USDA point-of-order bill. Sen. Ellender introduced bill to imple-
(continued on page 7)

HOUSE

1. APPROPRIATIONS. The Agriculture Committee reported with amendment H. R. 11682, to facilitate the control and eradication of certain animal diseases, to facilitate the carrying out of agricultural and related programs, to facilitate the agricultural attache program, and to facilitate the operations of FHA, FCIC, and FS (H. Rept. 2732). p. 11795

2. PERSONNEL. Passed as reported S. 1915, to permit the exchange of employees of this Department and employees of State political subdivisions or educational institutions for a period not to exceed 2 years in duration. p. 11720

3. FORESTRY. Passed as reported H. R. 8898, to authorize the purchase of additional lands within the Cache National Forest, Utah. p. 11721

Passed without amendment S. 3032, to approve the Middle Atlantic Interstate Forest Fire Compact. This bill is now ready for the President. p. 11726

Passed without amendment S. 2517, to provide for the release of certain Tongass National Forest timber receipts from escrow. This bill is now ready for the President. p. 11731

4. SOIL CONSERVATION. Passed without amendment S. 3120, to further extend the period of Federal administration of the ACP program from Jan. 1, 1957 to Jan. 1, 1959. This bill is ready for the President. A similar bill, H. R. 8321, was laid on the table. p. 11731

5. LAND TRANSFER. Passed without amendment S. 3344, to authorize the transfer of the Baranof Castle site (former research land) to the city of Sitka, Alaska. This bill is now ready for the President. A similar bill, H. R. 9678, was laid on the table. p. 11731

6. GOVERNMENT SECURITY. Passed without amendment S. J. Res. 182, to extend (until June 30, 1957) the time limit for the filing of a final report of the Commission on Government Security. This measure is now ready for the President. A similar measure, H. J. Res. 655, was laid on the table. p. 11733

7. ACCOUNTING. Received the conference report on H. R. 9593, to simplify accounting methods and facilitate the payment of obligations (H. Rept. 2726). p. 11786

The Government Operations Committee reported with amendment H. R. 11526, to improve governmental budgeting and accounting methods and procedures (H. Rept. 2734). ~~p. 11795~~

8. FARM CREDIT. Agreed to the Senate amendments to H. R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations. This bill is now ready for the President. p. 11787

9. MARKETING. The Agriculture Committee reported without amendment H. R. 8384, to extend the provisions of the Agricultural Marketing Agreement Act of 1937, to cranberries for canning or freezing processing (H. Rept. 2721). p. 11795

10. WILDLIFE. The Merchant Marine and Fisheries Committee reported with amendment H. R. 8250, to require conformance with State and Territorial fish and game laws and licensing requirements on Federal lands not subject to such laws (H. Rept. 2728). p. 11795

11. MILITARY CONSTRUCTION; SURPLUS COMMODITIES. Received the President's veto message on H. R. 9893, to authorize certain construction at military installations. The bill authorizes the Secretary of Defense to use for family housing in foreign countries, foreign currencies not to exceed $250 million acquired pursant to the provisions of the Agricultural Trade Development and Assistance Act of 1954, or through other commodity transactions of the CCC (H. Doc. 450). p. 11788

12. RECORDS. Passed over, at the request of Rep. Cunningham, S. 2364, to further clarify GSA's jurisdiction over records management. p. 11716

13. TRADE FAIRS. Passed as reported H. J. Res. 604, to authorize the President to invite the various States and foreign countries to participate in the U. S.

84TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. 2734

IMPROVING GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES

JULY 16, 1956.—Ordered to be printed

Mr. DAWSON of Illinois, from the Committee on Government Operations, submitted the following

REPORT

[To accompany H. R. 11526]

The Committee on Government Operations, to whom was referred the bill (H. R. 11526) to improve governmental budgeting and accounting procedures and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments are as follows:

Page 1, line 6, after the word "amended" strike out all down to and including "(1);" on line 7.

Page 1, line 8, strike out "(1)" and insert in lieu thereof "(a)".

Page 1, line 9, strike "(2) at such times as may be practicable," and insert in lieu thereof "(b) to the extent deemed desirable and practicable by the President, and at such times and in such manner as he may determine,".

Page 1, line 10, strike "subsec-".

Page 2, line 1, strike "tions" and insert in lieu thereof the word "subparagraphs".

Page 2, line 1, strike "(3)" and insert in lieu thereof "(c)".

Page 2, line 1, strike "(11)" and insert in lieu thereof "(k)".

Page 2, line 2, strike "respectively; and by adding the following new subsections:" and insert "respectively.".

Page 2, beginning with line 3, strike out all of the language through page 3, line 16.

Page 3, line 21, after the word "shall," insert "to the extend deemed desirable and practicable by the President, and".

Page 3, line 22, after the word "as", insert "he".

Page 3, line 22, after the word "may" delete "be determined by the President," and insert "determine".

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Page 3, line 24, after the word "operations," insert "including administrative subdivisions of funds,".

Page 3, line 25, after the word "by" delete the word "all".

Page 4, line 1, after the word "establishments" insert the word "concerned".

Page 4, line 1, after the word "subordinate" delete the following:

> units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets.

Page 4, line 17, strike "by organizational units".

Page 4, line 22, after the word "agency" insert the word "concerned".

Page 5, line 2, after the word "of" add the word "such".

Page 5, line 2, after the word "as" strike "re-".

Page 5, line 2, strike "quired by" and insert "may be developed pursuant to".

Page 5, line 12, after the word "to" strike "have".

Page 5, line 13, strike "a simplified system for" and insert in lieu thereof "achieve simplification in".

Page 5, line 15, after the word "operating" strike "unit, at the highest".

Page 5, line 16, strike "practical level, from not more than one" and add the words "unit through minimum".

Page 5, line 16, after the word "administrative" strike "sub-".

Page 5, line 17, strike the word "division" and add in lieu thereof "subdivisions consistent with operational requirements".

The bill, as amended, follows:

[H. R. 11526, 84th Cong., 2d sess.]

A BILL To improve governmental budgeting and accounting methods and procedures, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by adding after subparagraph (a) a new subparagraph "(b) to the extent deemed desirable and practicable by the President, and at such times and in such manner as he may determine, information on program costs and accomplishments"; by changing subparagraphs (b) through (j) to subparagraphs (c) through (k), respectively.

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216." and by adding the following new subsections:

"(b) The requests of the departments and establishments for appropriations shall, to the extent deemed desirable and practicable by the President, and in such manner and at such times as he may determine, be developed from cost-based budgets.

"(c) For purposes of administration and operation, including administrative subdivisions of funds, such cost-based

budgets shall be used by departments and establishments concerned and their subordinate units."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATION

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency on accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency concerned shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of such cost-based budgets as may be developed pursuant to section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such Act is amended by inserting "113 (c)" after the words "section 111".

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: "In order to achieve simplification in the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit through minimum administrative subdivisions consistent with operational requirements for each appropriation or fund affecting such unit."

SUMMARY OF PROVISIONS

The bill amends the Budget and Accounting Act of 1921 and the Budgeting and Accounting Procedures Act of 1950 to enable the President to include in the annual budget information on program costs and accomplishments. The departments and establishments

would be required to develop their requests for appropriations, to the extent deemed desirable and practicable by the President, from cost-based budgets. It further provides that for purposes of administration and operation, including administrative subdivisions of funds, such cost-based budgets shall be used by departments and establishments concerned and their subordinate units.

The bill authorizes the head of each agency in consultation with the Director of the Bureau of the Budget to act to achieve consistency in accounting and budget classifications, synchronization between these classifications and organizational structure and support of budget justifications by information on performance and program costs. He shall cause the accounts of such agency to be maintained on an accrual basis and include adequate monetary property accounting records.

The bill seeks to achieve simplification in the administrative subdivision of appropriations or funds by requiring each agency to work toward the objective of financing each operating unit through minimum administrative subdivisions consistent with operational requirements for each appropriation or fund.

General Statement

By this action, the Committee on Government Operations seeks to improve the system of budgeting and accounting in the Federal Government and to authorize new procedures such as the cost based budget where necessary to achieve this end. This action is partly the result of the recommendations of the Hoover Commission on the Organization of the Executive Branch of the Government, developments under the joint accounting program, and the committee's own continuing study and review. The bill seeks not only to promote simplification in reporting of the complex financial operations of the Government but also to obtain greater congressional control over and knowledge of appropriated funds. It is believed that the provisions of this bill may contribute to reducing the large carryover of funds from year to year which has reached tremendous proportions and about which many complaints have been made.

The bill as originally introduced contained a provision instituting the submission of budgetary requests for appropriations on an annual accrued expenditure basis. The committee heard strong testimony from the chairman of the Committee on Appropriations of the House and the ranking minority member of that committee objecting to the accrued expenditure device primarily on the ground that it would necessarily lead to contract authority for programs which extend beyond 1 fiscal year. It was felt that contract authority weakened congressional control, and it would not realize the benefits claimed. On the basis of these objections and the committee's own study, the provision for appropriations on an annual accrued expenditure basis was deleted from the bill.

The other changes in the original bill were made to give clarity of expression and to refine the objectives and were not intended to make substantive alterations in the basic provisions.

The committee believes that the changes in budgeting and accounting provided by this bill have merit and should be adopted. The committee was not, however, impressed by the claims of the Hoover

Commission and its task force that $4 billion could be saved by carrying out the Hoover Commission recommendations. In fact, neither the representatives of the Hoover Commission, the Bureau of the Budget, the Comptroller General, nor any other officials were able to state how the $4 billion figure was arrived at or in what way this saving could be made. We must conclude, therefore, that the figure of $4 billion is a myth. The committee is not prepared to endorse any figure, large or small, that represents any saving that could be accomplished by enactment of the Hoover Commission recommendations.

The committee is, however convinced that the enactment of this legislation will eliminate the confusion that has resulted from a difference between accounting and budget classifications and will require a realistic estimate of costs in support of budget requests. It will reaffirm the constitutional right of Congress to control over and knowledge of appropriated funds. No other justification of this legislation is necessary.

The committee had under consideration a number of bills to carry out the recommendations of the Hoover Commission. H. R. 9402, introduced by Congressman Lipscomb, contained nearly all of the Hoover Commission recommendations that seemed to require legislative action. Extensive hearings were held on all of these measures at which testimony was taken from many authorities. The committee concluded that H. R. 11526, as amended, represented the committee's best judgment as to what changes should be put into effect at the present time.

Section-by-Section Analysis [1]

Section 1 (a): This section is designed to implement recommendation No. 4 of the Hoover Commission Budget and Accounting Report which provides:

> (4) That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Section 201 (a) of the Budget and Accounting Act, 1921, would require the President to set forth in the budget, at such times as may be practicable, information on program costs and accomplishments. Such information should permit the Congress to give consideration to both relative size of programs and the question of economy and efficiency, as proposed in the first part of the Hoover Commission recommendation No. 4. The latter part of this recommendation is implemented by the addition of section 106 to the Budget and Accounting Procedures Act of 1950, as contained in section 2 (a) of the bill.

Section 1 (b): This section is designed to implement recommendations Nos. 3 and 6 of the Hoover Commission Budget and Accounting Report which provide:

> (3) That for management purposes, cost based operating budgets be used to determine fund allocations within the

[1] The section numbers of the Budget and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950 refer to the new provisions found in the legislation herewith reported.

agencies, such budgets to be supplemented by periodic reports on performance.

(6) That executive agency budgets be formulated and administered on a cost basis.

Section 216 (b) of the Budget and Accounting Act, 1921, would authorize the President to require the departments and agencies to develop their requests for appropriations from cost-based budgets. Section 216 (c) would require such cost-based budgets to be used by all departments and establishments and their subordinate units for purposes of administration and operation including the administrative subdivisions of appropriations or funds.

Section 2 (a): This section is designed to carry out the latter part of Hoover Commission recommendation No. 4, referred to above under section 1 (a), and recommendation No. 5, which provides:

> (5) That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Section 106 of the Budget and Accounting Procedures Act of 1950 is intended to achieve, insofar as possible, three objectives: (1) consistency in accounting and budget classifications; (2) synchronization between such accounting and budget classifications and organizational structure; and (3) support of the executive budget by information on performance and program costs by organizational units. Information would thus be available to the Congress for review of performance and program costs of each organizational unit including those which do not coincide with performance budget classifications. Objectives (1) and (2) are included in Hoover Commission recommendation No. 5 and objective (3) in the latter part of recommendation No. 4.

Section 2 (b): This section is designed to implement recommendations Nos. 14 and 16 which provide:

> (14) That Government accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.
>
> (16) That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Section 113 (c) of the Budget and Accounting Procedures Act of 1950 would require the head of each executive agency, as soon as practicable, to cause the accounts of such agency to be maintained on an accrual basis and to maintain adequate monetary property accounting records as an integral part of the accounting system. Only when this is done would it be possible for executive management or the Congress to determine at any given time the fiscal status of such agency, as contemplated by recommendations Nos. 14 and 16. The committee felt that if at some time in the future the Congress may deem it wise to authorize appropriations on an annual accrued expenditure basis, the proper and necessary accounting foundation will have been laid by this section.

Section 2 (c): This section amends the definition of the term "executive agency" in section 118 of the Budget and Accounting Procedures Act of 1950 to include the Post Office Department within the meaning of that term as used in section 113 (c) of that act.

Section 3: This section merely states legislatively recommendation No. 13 which provides:

> (13) That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

The making of numerous allotments which are further divided and suballotted to lower levels leads to much confusion and inflexibility in the financial control of appropriations or funds as well as numerous minor violations of section 3679, Revised Statutes, as amended (the Antideficiency Act).

Hoover Commission Comments on Cost-Based Budgeting

(From the report of the Commission on Organization of the Executive Branch of the Government on Budget and Accounting, p. 13)

At the present time most budgets are prepared on the basis of estimated obligations to be incurred during the budget year. Obligations are orders placed, contracts awarded, services received and similar transactions during a given period requiring future payment of money. Obligations to be incurred during the year do not necessarily have any relation to costs to be incurred during the year.

The task force states:

(*a*) Such a budget presentation fails to take into account inventories and other working capital carried over and available at the beginning of the year which may be consumed in the programs of the budget year.

(*b*) It excludes materials which may become available during the budget year on the basis of prior year obligations, or resources which are estimated to be carried over to the following year. Obviously, such inventories and materials should be considered in establishing the level of funds required to accomplish a program.

(*c*) The accounting data required in formulating and controlling agency budgets is that which reflects the costs of goods and services to be consumed in carrying out budget programs, in other words, estimated "costs incurred." The important thing in budgeting is the work or service to be accomplished and what that work or service will cost. Current Government practice, concerned primarily with incurring obligations, does not contribute to a determination of the costs of work or services to be paid for in the period under review. It fails to relate planned operations to past and projected costs.

(*d*) Cost based budgeting which is generally found in industry has been used successfully to finance the operating

expenses of the Atomic Energy Commission and the construction projects in the Bureau of Reclamation in the Department of the Interior, and is also used in the business-type budgets submitted by most Government corporations. It should be used also in developing internal operating budgets as well as for the President's budget submitted to the Congress. The Bureau of the Budget in August 1954 issued instructions to the agencies to use cost based budget data "wherever the information was available from an integrated accounting system." Such systems are the exception, and their installation should be expedited as a preliminary to budgeting on a cost basis.

Advantages of Cost-based Budgeting

In his report to the committee on H. R. 11526, the Comptroller General detailed the advantages of cost-based budgeting as follows:

1. Cost data (based on man-days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.
2. A proposed work plan (budget) stated in terms of costs (total resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.
3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.
4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influences.

The primary advantage of budgeting on a cost basis to both management and the Congress is that total resources to be used (on hand, on order, and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures, and costs in those many operations primarily concerned with personal services. On the other hand, dollar-wise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets. Major procurement, construction, and research and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

If cost-based budgets were used for management purposes in making administrative subdivisions of appropriations or funds within the departments and establishments as proposed by section 216 (c), the information submitted by the departments and establishments to the Bureau of the Budget for budgetary purposes would be substantially more meaningful. This would permit periodic reports on accomplishments or performance to be related to budgets in terms of costs.

It should be noted that agency budgets can be formulated and administered on a cost basis under present practices of stating appropriation authorizations on an obligation basis. This is currently being done in some cases, but the cost presentation is confined to the justification material in the greater number of such instances.

Definition of a Cost-Type Budget

A cost type budget is one which identifies, in terms of the goods and services consumed by each activity, the costs of the program planned by the agency. It discloses the balances of the goods and services on hand that have been obtained through use of prior appropriations, and the extent to which such available resources are planned to be used in the proposed program. Such resources generally consist of inventories of supplies and materials, and orders recorded as obligations for goods and services not yet received. Finally, a cost-type budget shows the obligating authority required to place orders for additional goods and services needed to accomplish the planned program and maintain the resources on hand at a level appropriate to the agency's operating requirements.

Comparison by the Bureau of the Budget of the Obligation Budget and the Cost-Type Budget

A cost-type budget is more useful for review purposes than an obligation budget because, in addition to bringing out the obligation requirements under each appropriation, it develops data on—

the cost of what is planned to be done;

the proposed use of what the agency has on hand to do it with;

the value of what is carried over for use on subsequent-year programs.

The obligation budget shows only the financing (obligation requirements) needed to place orders for goods or services in the budget year. This is shown by activity and in total. The cost budget shows the costs of goods and services to be actually used for each activity in the budget year. This is a better indicator of the size of the planned program and is a more meaningful measure of work and performance.

The obligation budget does not reflect the inventories on hand which are available for use by the agencies. The cost budget brings out the value of all resources of this type by showing, for example, the balances

of inventories on hand for future use, and the amounts of orders placed but undelivered—which will ultimately provide goods and services for agency use. These are pertinent data because they provide indicators of the amount of resources available beyond the obligation needs being requested.

In summary, the obligation budget highlights the financing that is needed to carry out a proposed program. This, however, is only the beginning of the financial process. The cost budget, in contrast, shows the financing and available resources and indicates the results of use of these two factors in terms of the end costs of the program. It thus brings out for review the complete financial cycle—from ordering the necessary goods and services to their application for program purposes.

An Example of an Operating Appropriation

PRESENT BASIS

Operating expenses, Coast Guard

PROGRAM AND FINANCING

	1955 actual	1956 estimate	1957 estimate
Program by activities:			
1. Vessel operations	$42,666,260	$44,214,795	$44,654,272
2. Aviation operations	13,953,945	15,477,086	16,844,687
3. Shore stations and aids operations	34,431,049	35,578,710	36,387,611
4. Repair and supply facilities	14,074,989	16,563,394	16,166,086
5. Training and recruiting facilities	7,627,524	8,134,328	8,358,528
6. Administration and operational control	19,378,047	20,097,810	20,178,441
7. Other military personnel expenses	14,534,260	14,454,701	15,842,199
8. Supporting programs	8,130,594	6,918,176	6,918,176
Total obligations	154,796,668	161,439,000	165,350,000
Financing:			
Unobligated balance no longer available	515,318		
Appropriation (adjusted)	155,311,986	160,750,000	165,350,000
Proposed supplemental due to pay increases		689,000	

NOTE.—From p. 924 of the 1957 budget.

An Example of an Operating Appropriation

COST BASIS

Operating Expenses, Coast Guard

PROGRAM AND FINANCING

	1955 actual	1956 estimate	1957 estimate
Program by activities:			
1. Vessel operations	$44, 013, 698	$44, 845, 777	$45, 285, 254
2. Aviation operations	15, 261, 137	17, 387, 949	18, 405, 432
3. Shore stations and aids operations	34, 865, 324	36, 007, 550	36, 816, 451
4. Repair and supply facilities	14, 231, 320	15, 872, 072	15, 474, 764
5. Training and recruiting facilities	7, 712, 243	8, 380, 657	8, 613, 857
6. Administration and operational control	19, 593, 279	20, 111, 102	20, 191, 733
7. Other military personnel expenses	14, 707, 472	14, 109, 372	15, 496, 870
8. Supporting programs	9, 391, 789	7, 664, 847	7, 664, 847
9. Adjustment of prior year costs	815, 071	.....	.....
Total costs	160, 591, 333	164, 388, 326	167, 949, 208
Relation of costs to obligations:			
Decrease (−) in selected resources available for future application to activity costs	−5, 794, 665	−2, 949, 328	−2, 599, 208
Total obligations	154, 796, 668	161, 439, 000	165, 350, 000
Financing:			
Unobligated balance no longer available	515, 318	.....	.....
Appropriation (adjusted)	155, 311, 986	160, 750, 000	165, 350, 000
Proposed supplemental due to pay increase	.....	689, 000	.....

RELATION OF COSTS TO OBLIGATIONS

Selected resources	*1954 actual*	*1955 actual*	*1956 estimate*	*1957 estimate*
Balance, June 30:				
Stores (goods unconsumed by projects)	$40, 483, 279	$38, 039, 168	$35, 991, 821	$33, 448, 921
Advances (payments for goods and services not yet received)	5, 396, 515	3, 601, 410	2, 488, 730	2, 488, 730
Deferred charges (prepaid expenses, work-in-process, and other unapplied charges)	3, 865, 547	1, 506, 915	1, 450, 000	1, 450, 000
Undelivered orders (goods and services on order not yet received)	17, 148, 806	12, 445, 389	13, 693, 397	14, 100, 089
Total selected resources	66, 894, 147	55, 592, 882	53, 823, 948	51, 487, 740
Deduct, selected resources at start of year	.....	66, 894, 147	55, 592, 882	53, 823, 948
Decrease (−) in selected resources	.....	−11, 301, 265	−1, 968, 934	−2, 136, 208
Adjustments of selected resources applicable to prior years	.....	3, 378, 002	.....	.....
Net transfers in (−) and out without charge	.....	2, 130, 598	−980, 392	−463, 000
Decrease (−) in selected resources available for future application to activity costs	.....	−5, 794, 665	−2, 949, 326	−2, 599, 208

SIGNIFICANT POINTS

A Shows the cost of goods and services used in performing the work - the most accurate financial measure of accomplishment for comparison with workload data.

B Shows the planned and actual use of resources on hand, already appropriated for, or the indicated buildup of resources for future use.

C Shows total obligations and appropriation as at present.

D Shows a breakdown of resources on hand as of each June 30th - inventories of supplies, advances to contractors, undelivered orders, etc.

E Shows, where applicable, the net value of property and services which the appropriation acquires without charge from other accounts, or gives to them without charge.

Changes in Existing Law

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

Budget and Accounting Act, 1921, as Amended by the Budget and Accounting Procedures Act of 1950

* * * * * * *

Sec. 201. (*a*) The President shall transmit to Congress, during the first fifteen days of each regular session, the Budget, which shall set forth his Budget message, summary data, and text, and supporting detail. The Budget shall set forth in such form and detail as the President may determine—

[a] (*1*) functions and activities of the Government;

(*2*) *at such times as may be practicable, information on program costs and accomplishments;*

[b] (*3*) any other desirable classifications of data;

[c] (*4*) a reconcilation of the summary data on expenditures with proposed appropriations;

[d] (*5*) estimated expenditures and proposed appropriations necessary in his judgment for the support of the Government for the ensuing fiscal year, except that estimated expenditures and proposed appropriations for such year for the legislative branch of the Government and the Supreme Court of the United States shall be transmitted to the President on or before October 15 of each year, and shall be included by him in the Budget without revision;

[e] (*6*) estimate receipts of the Government during the ensuing fiscal year, under (1) laws existing at the time the Budget is transmitted and also (2) under the revenue proposals, if any, contained in the Budget;

[f] (*7*) actual appropriations, expenditures, and receipts of the Government during the last completed fiscal year;

[g] (*8*) estimated expenditures and receipts, and actual or proposed appropriations of the Government during the fiscal year in progress;

[h] (*9*) balanced statements of (1) the condition of the Treasury at the end of the last completed fiscal year, (2) the estimated condition of the Treasury at the end of the fiscal year in progress, and (3) the estimated condition of the Treasury at the end of the ensuing fiscal year if the financial proposals contained in the Budget are adopted;

[i] (*10*) all essential facts regarding the bonded and other indebtedness of the Government; and

[j] (*11*) such other financial statements and data as in his opinion are necessary or desirable in order to make known in all practicable detail the financial condition of the Government.

(*b*) *The amounts of proposed appropriations referred to in sections 201 (a) and 203 of this Act shall, to the maximum extent deemed desirable*

and practicable by the President, be determined on an annual accrued expenditure basis.

"Annual accrued expenditures" shall relate to goods and services to be received in a fiscal year, advance payments, progress payments, and such other payments as are authorized by law to be made in such fiscal year.

This subsection shall not apply to appropriations made specifically for the payment of claims certified by the Comptroller General and of judgments; appropriations for the refund of Federal taxes and of other moneys erroneously received and covered into the Treasury of the United States; appropriations made by private relief Acts of Congress; appropriations for the payment of interest on trust funds; revolving funds or appropriations thereto; appropriations for the payment to former members of the armed forces, their dependents and beneficiaries, of any benefits to which they are entitled by reason of military service; appropriations for the payment of pensions and annuities; appropriations for the payment of any obligation of the United States for which liability is fixed by treaty; and other appropriations or funds analogous to the foregoing.

(c) The conversion to the use of annual accrued expenditures for stating proposed appropriations in accordance with section 201 (b) of this Act shall be accomplished in such manner and at such times as may be determined by the President.

(d) As ot the end of each fiscal year, the excess of any appropriation or fund made on an annual accrued expenditure basis over the accrued expenditures under such appropriation or fund shall lapse, unless thereafter provided otherwise in an appropriation act or other law. Any remaining balances of each such appropriation or fund shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year and shall constitute a single account.

SEC. 216. (*a*) Requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau by the head of any department or establishment shall be prepared and submitted as the President may determine in accordance with the provisions of section 201.

(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets.

BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

ACCOUNTING AND BUDGET CLASSIFICATIONS

SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units.

SEC. 113. (a) The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide—

(1) full disclosure of the financial results of the agency's activities;

(2) adequate financial information needed for the agency's management purposes;

(3) effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit;

(4) reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of its budget, and for providing financial information required by the Bureau of the Budget under section 213 of the Budget and Accounting Act, 1921 (42 Stat. 23);

(5) suitable integration of the accounting of the agency with the accounting of the Treasury Department in connection with the central accounting and reporting responsibilities imposed on the Secretary of the Treasury by section 114 of this part.

(b) The accounting systems of executive agencies shall conform to the principles, standards, and related requirements prescribed by the Comptroller General pursuant to section 112 (a) of this part.

(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system.

SEC. 118. As used in this part, the term "executive agency" means any executive department or independent establishment in the executive branch of the Government but (a) except for the purposes of sections 114, 116, and 119 shall not include any Government corporation or agency subject to the Government Corporation Control Act (59 Stat. 597), and (b) except for the purposes of sections 111, *113 (c)*, 114, and 116 shall not include the Post Office Department.

SECTION 3679, REVISED STATUTES (ANTI-DEFICIENCY ACT)

(g) Any appropriation which is apportioned or reapportioned pursuant to this section may be divided and subdivided administratively within the limits of such apportionments or reapportionments. The officer having administrative control of any such appropriation available to the legislative branch, the judiciary, or the District of Columbia, and the head of each agency, subject to the approval of the Director of the Bureau of the Budget, shall prescribe, by regulation, a system of administrative control (not inconsistent with any accounting procedures prescribed by or pursuant to law) which shall be designed to (A) restrict obligations or expenditures against each appropriation to the amount of apportionments or reapportionments made for each such appropriation, and (B) enable such officer or agency

head to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an apportionment or reapportionment. *In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.*

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Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 18, 1956
For actions of July 17, 1956
84th-2nd, No. 121

CONTENTS

HIGHLIGHTS: House passed new military construction bill. House Rules Committee cleared atomic power bill. House committees reported bills to authorize land exchange between USDA and Defense Department, dispose of rubber plant, authorize travel allowance for new appointees, provide flood insurance, and protect integrity of grain grade certificates. Sen. Morse introduced and discussed bill to transfer certain Siskiyou National Forest lands to Oreg. Rep. Spence introduced bill to implement the International Wheat Agreement. Senate committee reported water rights bill. Sen. Aiken stated farm income moving upward. Sen. Johnson stated farm income
(Continued on page 6)

SENATE

1. WATERSHEDS. Received from the Budget Bureau plans for works of improvement on watershed protection and flood control in the States of Md. and N. J.; to Agriculture and Forestry Committee. p. 11799

2. RECLAMATION. The Interior and Insular Affairs Committee reported without amendment S. 3728, to provide for the construction by the Secretary of the Interior of the San Angelo Federal reclamation project, Tex. (S. Rept. 2608). p. 11801

3. PERSONNEL. The Post Office and Civil Service Committee reported with amendment S. 3725, to provide for increases in the annuities of annuitants under the Civil Service Retirement Act (S. Rept. 2610). p. 11801

4. WATER RIGHTS. The Interior and Insular Affairs Committee reported with amendment S. 863, to govern the control, appropriation, use and distribution of water (S. Rept. 2587). p. 11801

5. FARM INCOME. Sen. Aiken expressed gratification relative to the report of this Department indicating that farm income is moving upward. p. 11808

Sen. Johnson stated that total cash income of Texas farmers has declined this year, and inserted a constituent's letter to support his position. p. 11838

6. SOCIAL SECURITY. Passed, by a vote of 90 to 0, H. R. 7225, the social security bill (pp. 11811, 11839, 11849, 11878, 11884, 11886, 11897 and 11902). Agreed to clarifying amendment by Sen. Capehart to exempt certain agricultural labor from the bill unless they are engaged in production or "management of production" of agricultural commodities (p. 11904). Conferees were appointed (p. 11920).

7. ELECTRIFICATION. Several Senators discussed and inserted material relative to the construction of the Hells Canyon dam. pp. 11812, 11830, 11843, 11890

8. FISHERIES. Conferees were appointed on S. 3275, to establish a sound and comprehensive national policy with respect to fisheries; to strengthen the fisheries segment of the national economy; to establish within the Department of the Interior a Fisheries Division; and to create and prescribe the function of the U. S. Fisheries Commission. (House conferees have not yet been appointed). p. 11873

The Interstate and Foreign Commerce Committee ordered reported with amendment S. 3831, to provide for the establishment of a fish hatchery in W. Va. p. D816

9. BUDGETING; ACCOUNTING. Conferees were appointed on S. 3897, to improve governmental budgeting and accounting methods and procedures. (House conferees have not yet been appointed). p. 11892

Agreed to the conference report on H. R. 9593, to simplify accounting and facilitate the payment of obligations. p. 11897

10. FOREIGN TRADE. Made as its unfinished business H. R. 6040, to amend certain administrative provisions of the Tariff Act of 1930 and to repeal obsolete provisions of the customs laws. p. 11920

11. FORESTRY. Passed without amendment H. R. 8898, to provide an additional authorization of appropriations for the purchase by the Secretary of Agriculture of lands within the boundaries of the Cache National Forest, Utah. This bill will now be sent to the President. p. 11920

12. LIVESTOCK SLAUGHTER. The Agriculture and Forestry Committee reported with amendment S. 1636, to require the use of humane methods in the slaughter of livestock and poultry in interstate or foreign commerce (S. Rept. 2617). p. 11921

13. FOOD RESERVE. The Foreign Relations Committee ordered reported with amendment an original concurrent resolution stating that it is the sense of the Congress that the President should explore with other nations the establishment of an international food and raw materials reserve under the auspices of the U. N. and related organizations (a number has not yet been assigned the resolution). p. D816

14. TAXATION. Received a telegram from a Calif. State Senate committee favoring enactment of S. 4183, to authorize the payment to local governments of sums in lieu of taxes and special assessments with respect to certain Federal real property; to Government Operations Committee. p. 11799

BILL TO ENCOURAGE SHARE OWNERSHIP BY AMERICAN YOUNGSTERS

Mr. WILEY. Mr. President, I have long been interested in the broadest possible degree of ownership by our American people in America's free-enterprise system, particularly in ownership of securities soundly purchased and soundly financed.

I regard it as a particularly valuable educational service to acquaint America's younger generation with the value of owning its own share in the American system of private initiative.

That is why on March 22 I spoke in the Senate—as shown in the CONGRESSIONAL RECORD for that date, beginning on page A2575—on behalf of the enactment by additional States of the Union of model legislation to facilitate stock gifts to minor children.

Such legislation has now been enacted in 13 States during last year and this year alone. I am pleased to say that my own forward-moving State is among their number.

I was happy recently to hear from Mr. G. Keith Funston, able president of the New York Stock Exchange, who wrote on behalf of enactment by the Congress of the model statute, so as to apply it to stock gifts here in the District of Columbia. Mr. Funston himself has done a most admirable job of helping to educate our people on the value of stock ownership, so he was in a most appropriate position to recommend the advancement of this cause.

I am most pleased that the House of Representatives passed the model bill, H. R. 11090, on July 9. I am glad that the distinguished chairman of the Senate District Committee (Mr. Neely) is a cosponsor of a companion bill, S. 3886, now pending before his own committee. Our colleague from West Virginia had introduced the bill at the sound suggestion of the District of Columbia Bar Association.

In his thoughtful message, Mr. Funston had written to me—

> Knowing of your specific interest in this legislation, I thought that I would take the liberty of informing you of these developments.

I indeed welcome his report. So it is my earnest hope that our colleagues on the Senate District Committee will now find it possible before the end of this session to report the bill favorably, so that the District can become the 14th area to enact the model statute.

It seems to me that in order to keep America moving ahead, in order to keep expanding our great private system, we must encourage more and more Americans to invest their savings wisely. Thereby, we shall help develop new tools, new technology, new plants, new jobs, and new markets for our growing population and our growing Nation

I send to the desk the text of the testimony by Mr. John R. Haire, secretary of the New York Stock Exchange, before the Subcommittee of the House District Committee which considered H. R. 11090. I believe his presentation is a most illuminating and concise statement on the value of this model statute. I commend it not only to the attention of my colleagues on the District Committee, but also to the attention of the other 35 States of the Union which have not as yet enacted the model statute.

May sound stock ownership flourish. May we see more and more Americans—young and old, men and women, working and retired—own equity in the United States system.

I ask unanimous consent that the text of Mr. Haire's statement be printed at this point in the body of the CONGRESSIONAL RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT OF JOHN R. HAIRE, SECRETARY OF THE NEW YORK STOCK EXCHANGE, BEFORE THE PUBLIC UTILITIES, INSURANCE, AND BANKING SUBCOMMITTEE OF THE DISTRICT OF COLUMBIA COMMITTEE OF THE HOUSE OF REPRESENTATIVES CONCERNING H. R. 11090, JUNE 26, 1956

My name is John R. Haire. I live in Scarsdale, N. Y. I am the secretary of the New York Stock Exchange. I am here today to testify in favor of H. R. 11090, which would make it easier for residents of the District of Columbia to make gifts of stock to minor children.

H. R. 11090 is based on a model bill developed by the New York Stock Exchange to facilitate stock gifts to minor children. Legislation based on the exchange's model bill has been enacted in 13 States in the 1955 and 1956 State legislative sessions. Those 13 States are: California, Colorado, Connecticut, Georgia, Michigan, New Jersey, New York, North Carolina, Ohio, Rhode Island, South Carolina, Virginia, Wisconsin.

A similar bill has also been passed by the Louisiana Legislature and now is before the Governor of that State for signature.

H. R. 11090, designed to benefit the residents of the District, has been endorsed by the District of Columbia Bar Association and introduced at the association's request.

PROBLEM TO BE SOLVED

Before I discuss the mechanics of the bill, I would like to outline briefly the problem that this legislation is designed to solve.

In jurisdictions where this legislation has not been enacted, common stock or other securities can be legally given to a minor child in 1 or 2 principal ways. An outright gift of securities can be made to a child and the securities registered in his name. This method can create considerable problems because a subsequent sale of the stock for the child would require appointment by a court of a legal guardian for the child. It has been our experience that most parents are completely unaware that one of them must be court-appointed as guardian of the property of their own child merely to sell securities which the parents themselves have given to the child. Guardianship can be extremely cumbersome, restrictive, and expensive when small gifts of stock to a child are concerned. As a result, this method of giving stock to children has not been practical for small gifts.

The second method of giving securities to children now available to parents is the creation of a trust. Here again the expense and inconvenience of a trust have deterred parents who desired to make modest gifts of stock to their children.

The treatment of stock gifts to children has contrasted sharply with the freedom and flexibility offered to parents who desire to make gifts to their children of either United States Government bonds or savings accounts. In these two areas little or no expense or redtape inhibits the parent from making gifts. In both cases, it has been made extremely simple for the parent or giver to act on the child's behalf in dealing with the bond or savings account which has been given to the child.

In recent years the New York Stock Exchange has received increasing numbers of letters from parents asking why, in this greatest capitalistic country in the world, it is so difficult for them to make a small gift of stock to their own child. These parents believe, as we do, that ownership of common stock would provide their children with a practical home study course in our free enterprise system. By explaining to a child what his stock certificate represents a parent can give a first-hand lesson in just how our economic system works. A child, by spending or saving his dividend check, can come to understand how our American profit system works. A close self-identification with our system would provide each of our children with the best possible understanding of what makes our economy tick.

Keith Funston, president of the New York Stock Exchange, has said this about the problem:

"By the time today's children are the leaders of tomorrow, I believe that this country will have a true democratic capitalism in which our productive facilities will be owned by millions more Americans. Essential to the strength of such a corporate democracy will be the education of today's youth to the workings of our economic system.

"And yet today our children are denied the greatest single teaching tool that we have—ownership. The denial of the convenient right of direct ownership of stock is largely responsible for the fact that only 2 children out of every thousand—two-tenths of 1 percent of our boys and girls—are shareowners. It is sad but true that, unless changes are made in our laws, almost every one of our children will reach maturity with no real comprehension of what it means to be a shareowner."

PROVISIONS OF THE BILL

Faced with this problem, we at the exchange set out to devise a way which would make it as simple to give stock to children as it is to give them Government bonds or a savings account. We believe that the bill which is receiving your consideration today provides that simple method.

In discussing the bill I would like to stress first that it applies only to one thing—gifts of securities to a minor child. It does not affect in any way the legal safeguards which have always protected a child's property received by inheritance or in any other manner. This bill merely provides a simple way for a parent or other adult to make a gift of stock to a child and reserve a power to manage the securities given until the child reaches 21. Actually, the bill does not permit a giver to do anything he could not do under the law at present by the creation of a trust for the child. It just simplifies things and therefore will encourage small stock gifts which are not now being made because of the expense and redtape involved.

This bill would make it possible to make an outright gift of stock to a child by the simple act of having the securities registered in the name of an adult as custodian for the child—the custodian being a close relative of the child or the giver himself. The actual registration required would be "John Jones, as custodian, for Mary Jones, a minor, under the laws of the District of Columbia." By having stock registered in that way, a giver would achieve two things. He would make an outright gift of stock to Mary Jones and would appoint her father, John, as a custodian with the power to manage the investment for Mary until she reaches 21. All of the rights, powers, and duties of the custodian are spelled out in the statute. Relatives of the child who are permitted to be custodians are parents, grandparents, adult brothers and sisters, uncles and aunts.

In the case of bearer securities a simple "deed of gift" must be filled out and the securities must be delivered to the custodian. For bearer securities the giver cannot serve as a custodian.

The gift to the child is complete and irrevocable. The child actually owns the securities, but the custodian has the right to manage the investment of this property until the child is 21.

The custodian can collect the income from the securities for the child. He can spend any part of the income or principal for the benefit of the child. Any property remaining when the child reaches 21 must be turned over to him.

The custodian may retain any securities originally delivered to him. He may sell any securities he holds at any time, but any reinvestment must be in such securities as would be purchased by a "prudent man of discretion and intelligence" seeking a reasonable income and capital preservation. Aside from investing in securities the custodian may hold the child's property in a savings account.

No transfer agent, broker or other third party dealing with the adult custodian is under a duty to question what the custodian does with the child's property. Brokers and others can treat the adult custodian as they would any other fiduciary. The child, on reaching 21, would have no right to challenge the activities of brokers or others who had dealt in good faith with the custodian.

The custodian must keep the child's property separate, in such a way as to clearly identify it as the child's.

The giver or a member of the child's family who is acting as custodian may be reimbursed for expenses but otherwise shall receive no compensation.

Being uncompensated he is liable to the child only for losses occurring through bad faith, intentional wrongdoing, or failure to invest in accordance with the provisions as to investment which I have already mentioned.

A custodian may resign by selecting an adult relative of the child as custodian and delivering to him the property held as custodian.

If a custodian dies or becomes incompetent before the child is 21 and if the child has a guardian, the guardian would become the new custodian. If there is no guardian, a member of the child's family designated by the will or by the legal representative of the last acting custodian would become custodian. If all else fails, the United States District Court for the District of Columbia (holding a probate court) can appoint the successor custodian.

When the child reaches 21 and the property is turned over to him no accounting is required. The child, within 1 year after reaching majority, can, however, require a formal court accounting if he has doubt as to the custodian's conduct.

Of course, this bill would not prevent making gifts in trust to a child nor would it eliminate in any way any existing methods of making gifts of securities to children.

I believe that I have covered the more important provisions of this bill. The bill would provide a simple and practical way to make small gifts of stock to children. From the point of view of public policy, it does not reduce in any way the protection afforded children. It applies only to gifts of securities to be made in the future. All it does is make it easier for a giver to obtain the flexibility which he can now obtain only by a complex legal document. It enables all parents to make gifts of securities, no matter how small, with the same ease that they can now give a Government bond or savings account. And we at the New York Stock Exchange believe that such gifts can make an important contribution to the goal of broader share ownership in America by helping to educate our younger generation to the workings of our great free-enterprise system.

PARTICIPATION IN POLITICS BY FORD MOTOR CO. EMPLOYEES

Mr. NEUBERGER. Mr. President, I ask unanimous consent to include in the body of the CONGRESSIONAL RECORD a most illuminating and enlightening letter from Henry Ford II, president of the Ford Motor Co., to his employees. In this letter Mr. Ford urges all employees of his vast company to take a direct interest in politics—to join the party of their choice and to support it with their efforts and such funds as they can reasonably spare.

Henry Ford II emphasizes that it is the duty as well as the privilege of all Americans to participate in politics. He has phrased in one way what was said, in a slightly different way, in 1920 to a group of college students by another person, the late Elihu Root, Secretary of State under President Theodore Roosevelt. Mr. Root, also a Senator from New York, told a group of college students:

Politics is the practical exercise of self-government, and somebody must attend to it if we are to have self-government. The principal ground of reproach against any American citizen should be that he is not a politician.

I commend Henry Ford II for being sufficiently interested in free government himself to recommend that his employees likewise do something about it. I wish other captains of industry would follow Mr. Ford's example in this respect. Freedom does not just happen, Mr. President. Free people must help to create a government which will protect freedom and merit freedom. I ask unanimous consent that the letter by Henry Ford II, to his employees, as printed on the editorial page of the Washington Post and Times Herald for July 17, 1956, be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

POLITICAL ROLE URGED FOR FORD WORKERS

Acceptance of more individual responsibility by Americans for participation in and financial support of political campaigns has frequently been suggested as one means of broadening the base of campaigns and minimizing dependence on large contributions. We reprint below a significant letter bearing on this important subject, sent by Henry Ford II, president of the Ford Motor Co., to all employees of the company:

"This is an important year for all Americans. In November, we will have the privilege of determining the political, social, and economic course of our Nation for the next 4 years.

"The right to choose a President and to decide which party shall be entrusted with administering our Government at a most critical time in world history imposes a grave responsibility on every citizen. It is our duty to know the issues involved. It is our obligation to take an active, perceptive interest in the candidates and to make a critical appraisal of the policies they advocate.

"But merely informing ourselves, so that we may vote intelligently, should not end our obligation as citizens. The stake we have in self-government is too great for any of us to assume the role of passive bystander. If we believe in a party and its nominee, then we should support that party and that man to the limit of our ability.

"The Republican and Democratic Parties alike need help in presenting their views to the public at large. They must have willing and interested workers who can devote time and effort to the job of encouraging millions of Americans to exercise their voting franchise. Both parties must raise money to cover the high costs of campaigning on radio, television, and in various forms of advertising.

"I urge all employees of Ford Motor Co. to serve themselves and their Nation in the next few months by devoting at least a portion of their available time to the interests of the party of their choice. I also urge you to contribute money to your party in whatever amount your means will permit. The actual size of your contribution is far less important than your willingness to make known where you stand, politically, on important questions of our times.

"The two great parties in our political system are the bulwarks of 'one Nation, indivisible, with liberty and justice for all.' They deserve support from all of us—each according to his ability to contribute that support and each in accordance with whatever his political convictions may be.

IMPROVEMENT IN GOVERNMENTAL BUDGETING AND BUDGETING ACCOUNTING METHODS AND PROCEDURES

The PRESIDING OFFICER (Mr. PAYNE in the chair) laid before the Senate the amendment of the House of Representatives to the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, which was, to strike out all after the enacting clause and insert:

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by adding after subparagraph (a) a new subparagraph "(b) to the extent deemed desirable and practicable by the President, and at such times and in such manner as he may determine, information on program costs and accomplishments"; by changing subparagraphs (b) through (j) to subparagraphs (c) through (k), respectively.

(b) Section 216 of such act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216." and by adding the following new subsections:

"(b) The requests of th departments and establishments for appropriations shall, to the extent dcemed desirable and practicable by the President, and in such manner and at such times as he may determine, be developed from cost-based budgets.

"(c) For purposes of administration and operation, including administrative subdivisions of funds, such cost-based budgets shall be used by departments and establishments concerned and their subordinate units."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATION

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency on accounting and budget classifications, (2) synchronization between accounting and

budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs."

(b) Section 113 of such act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency concerned shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintaind on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a viw to facilitating the preparation of such cost-based budgets as may be developed pursuant to section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such act is amended by inserting "113 (c)" after the words "section 111."

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the need thereof the following sentence: "In order to achieve simplification of the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit through minimum administrative subdivisions consistent with operational requirements for each appropriation or fund affecting such unit."

Mr. KENNEDY. Mr. President, I move that the Senate disagree with the amendment of the House of Representatives, request a conference thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Presiding Officer appointed Mr. KENNEDY, Mr. HUMPHREY of Minnesota, Mr. WOFFORD, Mr. SYMINGTON, Mrs. SMITH of Maine, Mr. COTTON, and Mr. MARTIN of Pennsylvania conferees on the part of the Senate.

THE PRAVADA ATTACKS ON SECRETARY OF STATE DULLES

Mr. KNOWLAND. Mr. President, I wish to call to the attention of the Senate an article which appeared in Pravda on July 15, 1956.

After describing Mr. Dulles as "the chief enemy of communism in the world," Pravda effectively concedes that his policies are having an effect behind the Iron Curtain.

Speaking of the people in captive lands. Pravda states:

One should not forget that in certain places there still are opportunist elements on whom the enemies of the working people are undoubtedly banking. One should also remember that among the insufficiently politically mature and exceedingly credulous people there might be those who fall for the noisy words about national communism and for the contention that international connections of Communist Parties have allegedly become superfluous, and so on.

Pravda further complains that:

The United States statesmen who pretend to the leadership of the entire capitalist world have seized on the past mistakes and shortcomings in connection with Stalin's cult in the U. S. S. R.

So badly has the Secretary worried the Communist bosses that not only this voluminous article, but a lengthy editorial, as well, seek to reassure and realine the badly upset and divided Communist Parties in various parts of the world.

It is apparent that Secretary Dulles was correct in saying that Moscow's controls of these parties has been badly shaken. The very violence of Pravda's attacks on Mr. Dulles shows how severely the Communist's structure has been shaken by the disclosure to the world of Mr. Khrushchev's speech to the 20th Congress of the Communist Party.

I ask unanimous consent that the Pravda article be printed at this point in the RECORD, as a part of my remarks.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

INTERNATIONAL FORCES OF PEACE, DEMOCRACY, AND SOCIALISM ARE GROWING AND STRENGTHENING

In the history of the postwar period, which has been rich in events, the 20th CPSU congress occupies a particularly important place. At this congress, the party which leads 200 million Soviet people to communism mapped out a comprehensive program of action which caused a tremendous upsurge of creative forces of the Soviet people and which has fundamentally changed the international situation.

Since the 20th CPSU congress, as a result of the lofty labor of the Soviet people inspired by the ideas of communism, new considerable successes have been attained in the U. S. S. R. in all spheres of political, economic, and cultural life.

Our international affairs are also successfully developing. On the initiative and with the active participation of the Soviet Union, a lessening of tension in relations between states has been achieved. Positive results have been achieved in the settlement of a number of outstanding international problems. The positions of peace-loving forces have been considerably consolidated. Real prerequisites have been created for insuring a stable peace.

The 20th CPSU congress not only declared that the forces of peace are now sufficiently strong to prevent war, but also mapped out a constructive program of achieving the great and lofty aim of strengthening peace. The implementation of this program gives mankind the possibility of avoiding another, still more destructive war.

The fundamental theoretical concepts advanced by the congress, namely, the concepts on the peaceful coexistence of states with different social-political systems, on the possibility of preventing wars in the present epoch, and on the variety of forms of transition of countries to socialism, are contributing to the strengthening of the unity of action of all progressive forces and to a further consolidation of the positions of the world system of socialism.

Broad people's masses, not only in Socialist, but also in capitalist countries, have welcomed the program of peace and international cooperation proclaimed by the 20th CPSU Congress and have supported it. They received this program as their own and started struggling for its implementation. The tremendous and still increasing effect of the decisions of the 20th CPSU Congress on the state of world affairs causes alarm and rancor in the camp of the foes of the working class.

Endeavoring to weaken, at least to some extent, the beneficial effect of these decisions on the international situation, they have concentrated all their efforts on the attempt to denigrate the program of peace and cooperation offered to peoples by the 20th CPSU Congress. However, the more stubbornly they have engaged in this ungrateful business, the clearer the real antipopular designs of the imperialist forces has become.

The United States statesmen who pretend to the leadership of the entire capitalist world have seized on the past mistakes and shortcomings in connection with Stalin's cult in the U. S. S. R., which were condemned by the 20th CPSU Congress and have been rectified already by the CPSU Central Committee.

The United States State Department, having abandoned diplomacy, has become the headquarters of a propaganda campaign launched by it around the personality cult. The aim of this campaign is to cast a shadow on the great ideas of Marxism-Leninism, to undermine the confidence of the working people in the first Socialist state in the world, the Soviet Union, and to introduce dissension and confusion within the ranks of the world's Communist and workers movement.

The facts show that in this case we are dealing not with a conventional propaganda campaign, of which during the years of the cold war the United States State Department organized quite a few. It is an extensively elaborated new political plan on which the United States reactionary circles are staking much.

Being aware of the fact that under the present circumstances the idea of the restoration of capitalism can hardly find supporters in the countries of people's democracy, the henchman of American monopolies have chosen a craftier method. Making use of their agents and relying on the support of the remnants of the routed exploiters' classes hostile to communism, and endeavoring to enmesh certain honest but politically insufficiently mature men, they are trying to rouse chauvinist sentiments, undermine relations between Socialist States, and to sow animosity among them. Acting in this way, the imperialists hope to weaken the Socialist States in order to embark upon extensive undermining activities against the people's regime and the Socialist system.

Similar tactics are being suggested by the ideologists of imperialism also for use against the Communist Parties in capitalist countries. They are trying to undermine the international ties of the world's workers' movement. It is the same Dulles, this sworn enemy of communism, who is ready to swear that he is not against Communist Parties as such, but merely against the fact that they are "too closely" connected with the Communist Party of the Soviet Union.

Apparently, Dulles and his kind are incapable of understanding that sham "concern" over the "independence" of the countries of people's democracy and of the Communist Parties can only put the supporters of peace, democracy, and socialism on guard against the enemies' designs. Yet, we would commit a grave error if we were to underestimate the new maneuver of the enemy.

One should not forget that in certain places there still are opportunist elements on whom the enemies of the working people are undoubtedly banking. One should also remember that among the insufficiently politically mature and exceedingly credulous people there might be those who would fall for the noisy words about "national communism" and for the contention that international connections of Communist Parties have allegedly become "superfluous," and so on.

The World Socialist system is a stable and indestructible commonwealth of many countries. The countries which at present form the World Socialist system have finished with capitalism as a result of a prolonged and difficult liberation struggle by the working class and peasantry against the

oppressors. The Communist and workers' parties have led and are leading the peoples of these countries along the correct road of Socialist and national liberation, being inspired by the ideas of Leninism, the eternally alive and developing teaching which is transforming the world.

Prior to the second world war such countries as Poland, Rumania, Hungary, Bulgaria, and Albania had small industries and backward agriculture. In these countries there prevailed fascism and semi-Fascist regimes which brutally opressed the working people. Foreign monopolies bossed their national economies. The building of socialism enabled these countries, as well as other countries of people's democracy, to do away for ever with the economic backwardness of the past, to create heavy industry, and to improve the national culture.

It is noteworthy that the countries of eastern Europe, backward in the past, are, by following the road of socialism, coming close to the economically developed west European States as regards volume of production in the most important branches of heavy industry.

THE REAL MEANING OF AIRPOWER: ADDRESS BY ARTHUR GODFREY

Mr. SMATHERS. Mr. President, I ask unanimous consent to have printed in the body of the RECORD a very brilliant and persuasive speech entitled "The Real Meaning of Airpower," delivered by Arthur Godfrey at the 14th Air Force Association meeting in Milwaukee, Wis., on July 14.

Arthur Godfrey, aside from his obvious talents as an entertainer and a salesman, is also one of the best informed men, either in or out of Government, on the matter of this Nation's airpower. He is a pilot himself and, as such, has become intimately acquainted with all the top fliers in this Nation. As a result thereof, he has made a detailed study of our problem of airpower, particularly in relation to that of the Soviet Union.

I shall not here attempt to redeliver Mr. Godfrey's speech; but I suggest that every Senator read it, because he will profit thereby.

Mr. Godfrey was kind enough in his speech to mention the splendid work being done by the chairman of the Armed Services Committee, the Senator from Georgia, DICK RUSSELL, as well as the splendid work being done by two other Members of the Senate, the able junior Senator from Missouri, Mr. SYMINGTON, who heads the present Airpower Investigation Subcommittee; and our very competent and distinguished majority leader, LYNDON JOHNSON. He gives to them, in many ways, the recognition which is their due—that of calling to the attention of the Nation the fact that the United States is losing the superiority which she once had in the air over the forces of the Soviet Union. Mr. Godfrey, by such speeches as this, and by others that he will continue to make, is rendering a great service to his country; and I am sure that, after reading his speech, every Senator will agree with this conclusion.

There being no objection, the address was ordered to be printed in the Record, as follows:

THE REAL MEANING OF AIRPOWER

(Address by Arthur Godfrey before the 14th Air Force Association, Milwaukee, Wis., July 14, 1956)

It is a great honor to be permitted to address this company tonight. The 14th Air Force in World War II wrote some of the most inspiring pages in our history and I am proud beyond words to have been invited to this reunion. I would be prouder still had I been one of you; to have had the privilege of serving under that great airman, Claire Chennault. He is one of the really great soldiers of our time, and one of the pioneering, courageous few whose vision and whose conviction helped bring military aviation to its present state of maturity.

Regretfully, I cannot share in your memories of the war. I never flew the Hump or tangled with a Zero. I never even saw the rice paddies of China. Kunming, Hengyang, Liuchow, Sian, Chengtu—are to me only strange and exotic places names which I know to have been the lairs of the Flying Tigers.

And as for the delights of Shanghai—and its Bubbling Well Road, the Palace and Park Hotels, the Bund and Hongkew across the bridge—well, all I know is that from what I have heard, I should have been there.

Nineteen years ago this month—July 1937. The Japs had just attack the Marco Polo Bridge near Peking. General Chennault offered his services to Chiang Kai-shek. They were promptly and gratefully acepted. In all probability, you little realized it then—but you gentleman actually changed the entire course of history.

No poor words of mine could ever aptly describe the blazing bravery with which you fought in the skies above that storied land. You flew high across the old Jade Road that threads its way through Yunnan, from Peking to the fabulous jade mines of Mogaung in northern Burma. Your fighters shadowed the plains where Kubla Khan's mounted Mongol archers had battled the armored elephants of ancient Burmese kings.

Talk about guts. Talk about tradition. Talk about dedication. Few, if any, spare parts; lacking ammunition, fuel and food: thus was written the glorious saga of the American Voluntary Group, China Air Task Force, 14th Air Force, the Double Seven, Flying Tigers all.

But I doubt that you are the kind of men who want to listen to a speech about how good you were in time of battle—no, not even when the facts warrant just such a tribute. And especially I think, you don't want that kind of talk from a gent, like me, who has never enjoyed the peculiar tonic effects of jingbow juice. So let me get on with what I came here to say.

Despite the fact that I have been pretty active in this crusade for American air power for the last 6 years, some of you may still be wondering how and/or why I got into the act. I am an alleged radio and television entertainer—and have been for 27 years. I have on many an occasion demonstrated my ability to tell a joke as poorly, to play the ukulele as noisily, and to sing as badly as anyone in the business.

By dint of those debatable accomplishments, I have managed to emerge from complete and abject insolvency to become one of those unfathomable miracles who continue to amaze and frustrate the self-styled critics of my profession. In fact, I never cease to amaze myself. For my good fortune, I am extremely grateful and for years I have been consumed with an impelling desire to really serve my country in return.

My distinguished old friend, Charles Erwin Wilson, then president of General Motors, in a speech some years ago quoted Cardinal Mooney as follows: "freedom is the condition under which a person is not restrained in the exercise of any right or the fulfillment of any responsibility. The right of the individual to be free, as recognized in our Constitution and Bill of Rights is contingent upon the individual's willingness to accept certain responsibilities as a member of our free society."

If you hold your breath for a full minute, you'll find yourself in agony * * * and, gasping, you'll gratefully swallow great gulps of precious air immediately afterward. Freedom is like that: too much of the time, you're not conscious of it—until you lose it. But with freedom comes responsibility.

This Country—your Country—my Country—our Country gave me my freedom and my opportunity. I worked hard and took advantage of my opportunities, sure: but I could have worked twice as hard under some other system and received nothing but lashes, starvation and serfdom for my pains. Because I am an American, I have achieved a small measure of success, despite the fact that I started from the very depths of destitution. I'm not bragging—what I'm trying to establish is simply the reason for my intense interest in our subject tonight. I am humbly grateful to the land of my birth (which means the people in it), for my freedom and for my opportunities. These blessings are mine and all of America's because of men like yourselves—a great many of whom are with us tonight only in spirit.

Now, except that I study as many of the national issues as my faculties and time will permit, I have never had much to do with politics. While I thank our wise old forefathers for our great two-party system, I belong to neither one. I have always and will always vote for the man I think best qualified for the office. As a matter of fact, if it weren't for the terrible menace behind that Iron Curtain, nobody'd ever hear a word out of me except in the cause of fun and happiness. I am by nature a happy-go-lucky kind of gent who would like nothing better than to retire from the arena next week or the week after and hunt and fish the rest of my life.

My trouble, gentlemen, is that 36 years ago I had a couple of rides in a Navy F-5-L flying boat at the Naval Air Station, Hampton Roads, Va., when I was a boot in the Navy. I had but a half dozen or so other flights in various types of aircraft during the next 9 years, because I went to sea in destroyers where aircraft were unheard of and when I was ashore, I rarely had enough money to buy a half-hour of dual instruction.

But in 1929, I began my study of aviation in earnest and since that time, I have averaged something better than 200 hours a year of flying time. As busy as I've been in the last 3 or 4 years, I've managed to average 150 hours a year—which is a lot of time, I think you'll grant, for an amateur. I have flown almost every kind of reciprocating engine airplane and a few of our modern jets.

In 1950, after years of being turned down by military aviation doctors because of my hip, I finally won my Navy wings at Pensacola and subsequently qualified as a carrier pilot, as a jet pilot, as a helicopter pilot, and got my green instrument ticket in Corpus Christi. I have flown B-29's, B-50's, B-47's, and B-36's, too. Someday, I hope to get a ride in a B-52—the monarch of them all.

Prior to the time I went to Pensacola in 1950 (having been denied military aviation), flying was simply pleasure and convenience to me. From the days in 1929 and 1930 when I had become acquainted with the special joys of gliding—quiet as a wheeling hawk across the sky, through the OX-5 Travelairs and the J-6-7 Challengers, the old Fleet trainers and the C-3 Aeroncas and the little Taylor Cubs, I had a wonderful time, in the

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5. change the reduction factor below age 60 from 3 percent a year to $1\frac{1}{2}$ percent a year; 6. liberalize the disability benefits to provide that it shall be the lesser of 40 percent of average salary or the annuity which would have been earned at age 60; and 7. provide for an annuity upon involuntary separation at age 50 with 20 years of service as well as 25 years of service without regard to age." p. D831

26. APPROPRIATIONS. Conferees were appointed on H . R. 12138, the supplemental appropriation bill for 1957. Senate conferees were appointed on July 16. p. 12146

27. BUDGETING; ACCOUNTING. Conferees were appointed on S. 3897, to improve governmental budgeting and accounting methods and procedures. Senate conferees were appointed on July 17. p. 12146

28. FISHERIES. Conferees were appointed on S. 3275, to establish a sound and comprehensive national policy with respect to fisheries, to strengthen the fisheries segment of the national economy, to establish within the Interior Department a Fisheries Division, and to create and prescribe the functions of the U. S. Fisheries Commission. Senate conferees were appointed on July 17. p. 12174

29. RECLAMATION; ELECTRIFICATION. Conferees were appointed on S. 497, to authorize the Secretary of the Interior to construct, operate, and maintain the Washoe reclamation project, Nev. and Calif. Senate conferees were appointed on July 16. p. 12142

Rep. Green criticized the Administration's efforts to oppose the construction of a Federally owned high dam at Hells Canyon. p. 12185

The Rules Committee reported a resolution for the consideration of H.R. 7435, to reauthorize construction by the Secretary of the Interior of the Farwell unit, Nebr., of the Missouri River Basin project. p. 12195

The Interior and Insular Affairs Committee reported without amendment S. 3338, relating to rates charged to public bodies and cooperatives for electric power generated at Federal projects (H. Rept. 2788). p. 12195

30. ATOMIC ENERGY. Rep. Flood opposed intemperate consideration of bills to authorize an accelerated atomic energy electric power program and suggested that further contemplation be given to the peaceful application of atomic energy. p. 12185

The Rules Committee reported a resolution for the consideration of H. R. 12061, to provide for a civilian atomic power acceleration program. p. 12195

31. FOREIGN AID. Both Houses received from the President the 37th annual report on Lend-Lease operations (H. Doc. 413); to the Senate Foreign Relations Committee and the House Foreign Affairs Committee. pp. 12031, 12176

ITEMS IN APPENDIX

32. TEXTILES. Extension of remarks of Rep. Philbin stating that "...the same unfair competitive conditions now so seriously undermining the textile industry are developing with respect to other American industries..." and inserting an article on this subject. p. A5593

Rep. Celler inserted a letter from the Textile Workers Union of America stating that whatever justifications there may be for consolidations of other industries and that whatever the benefits may be from such mergers that none has become evident in the textile industry. p. A5598

33. RECLAMATION. Rep. Dawson, Utah, inserted a series of newsletters outlining information concerning the Central Utah project, of the uper Colorado River

storage program. p. A5594

Rep. Miller, Neb., inserted Guy Jackson's pres., Nat'l Reclamation Ass'n, speech outlining the legislative history of the Federal reclamation program. p. A5618

Rep. Brooks, La., inserted a report he made to the National Rivers and Harbors Congress concerning the activities and achievements of the congress during the past year. p. A5643

34. FARM PRICES. Rep. McGregor inserted a newspaper article which stated that official statistics, based on a careful study of the farm situation, indicate an increase in farm prices. p. A5597

35. FISHERIES. Sen. Magnuson urged final action on S. 2379, which would provide aid to the fishing industry in the United States by providing for the training of needed personnel. p. A5599

36. FARM PROGRAM. Rep. McGregor inserted excerpts from various speeches he had made, including: farm problems---controls; farm vote on wheat referendum; permit farmers to grow what they need; and social security for farmers. p. A5620

Sen. Wiley inserted and discussed various newspaper articles "which show what I have done for farmers on such issues as farm parity, school milk, Dairy Day, dairy research, etc.. p. A5637

37. PUBLIC WORKS. Rep. Brooks, La., inserted Rep. Rabaut's address before the Rivers and Harbors Congress discussing the scope and responsibility of the Public Works Subcommittee of the Committee on Appropriations. p. A5626

38. POULTRY. Rep. Sullivan urged enactment of legislation to require compulsory poultry inspection and inserted her statement before the Poultry Subcommittee of the House Committee on Agriculture. p. A5628

39. SOIL BANK. Rep. Hill inserted a USDA news release summarizing the progress of the 1956 acreage reserve program. p. A5645

40. PERSONNEL. Sen. Martin inserted and commended a newspaper editorial critical of the theory that no inquiry should be made concerning the loyalty of persons holding so-called nonsensitive positions in Government. p. A5645

BILLS INTRODUCED

41. POULTRY. S. 4243, by Sen. Clements, to provide for the compulsory inspection by the United States Department of Agriculture of poultry and poultry products; to Agriculture and Forestry Committee.

42. LANDS. H. R. 12299, by Rep. Berry, to amend the act of August 5, 1947, to grant to owners of property adjacent to lands to be leased by the Secretary of the Army for agricultural or grazing purposes, certain rights with respect to the leasing of such lands; to Armed Services Committee.

43. RESEARCH. H. R. 12302, by Rep. Metcalf, to provide for cooperative unit programs of research, education, and demonstration between the Federal Government of the United States, colleges, and universities, the several States and Territories, and private organizations; to Merchant Marine and Fisheries Committee.

trously misjudged the temper and the resolution of the American public. Historians generally agree that none of these would have done what they did if they had realized in advance how strong and determined would be the reaction of the United States. Because the American people are long suffering and try to the last minute to avoid any trouble, gives some the impression we can be pushed around indefinitely. The Congress owes it to the world to announce once more to any countries anywhere that may be inclined to think that American public opinion is soft on this issue, that they ought to stop and ask themselves carefully:

Which do they think it more important and valuable to themselves and to the United Nations to have on their side, Communist China or the United States? They may not be able to have both.

Mr. Speaker, one occasionally hears, especially from abroad, various arguments brought up in favor of recognition or admission into the United Nations of a Communist regime in China which, instead of helping the U. N. put down an aggression in Korea, joined in the aggression against the U. N.—a regime which brazenly defies all the decencies of civilized international intercourse, cynically breaks its pledged word whenever expedient, and accuses the United States of the crimes in Asia of which it itself has been solemnly judged guilty by the United Nations.

I wish all would read the committee report on this resolution, which assembles the facts and arguments presented in the reports on 5 similar resolutions during the last 5½ years. May I give the answers to some of the arguments that at first glance might seem plausible?

It is said that Communist China should be admitted because the U. N. ought to have all existing governments in it, ought to have universal membership. No; the charter makes perfectly clear that was never the intent of the U. N. Maybe there ought to be a universal organization, but that cannot be the U. N. unless its charter is drastically amended. Why do not the advocates for Red China openly advocate such amendment, instead of cynical violation of the charter?

The U. N. was limited to peace-loving nations. Article IV sets up criteria and procedure for determining eligibility, how nations are to be admitted, and how they are to be suspended or expelled if they violate the charter. To admit the Communist China regime would only make it immediately eligible for expulsion.

Someone will protest, "But the Soviet Union is in the U. N.—what is the difference? We should either admit Red China or kick the Soviet Union out." There are three quick answers:

First, two wrongs do not make a right.

Second, the Soviet Union got in on the ground floor when it was pretending to be peace-loving, democratic, willing to cooperate for peace in international affairs. The Reds of China do not even pretend. There is no excuse for making a mistake in their case.

Third, it is idle to talk about expelling the Soviets because they are one of the big five and can veto their expulsion. If Communist China were to be admitted, it would not be possible to expel her either. Russia would veto that too.

It is said, "Well, Communist China is a fact. We must be realistic." The answer is that it is just because Red China is indeed such a powerful and dangerous fact that the regime must not be admitted. To do so would make it even more powerful and more dangerous. If anything is realistic, it is the fact that the Communist regime in China is dedicated to the isolation and destruction of the United States.

Gangsters are a fact in some of our big cities. We do not argue, in the name of realism, that, therefore the FBI should take the gangsters in. Realism demands that the gangsters be kept out of the forces responsible for maintaining law and order.

It is said that since the Chinese are the most numerous people on the globe, they are entitled and ought to have representation in the U. N.

Certainly, but the Peking Government does not represent the Chinese people. It represents the Kremlin. When a person becomes a Communist, he ceases to be a Chinese patriot, or a French patriot, or an American patriot. He is a world revolutionist. Let the Chinese people choose their representatives in free elections.

There are many more arguments as superficial and as easily refuted as the above. But I must not take time here and now to list and answer them. In summary let me ask three questions.

First. Would admission of Communist China to the U. N. make it weaker or stronger? The answer is obvious. Why else would every Red regime sympathizer in the world be moving heaven and earth all these years to get Red China admitted?

Second. Would admission decrease or increase Red China's influence with its neighbors in Asia—Japan, Southeast Asia, India—and the neutrals everywhere? The answer is obvious.

Third. Would admission make Red China a lesser or a greater danger to ourselves and to genuine peace in the world? The answer is obvious.

To build up an avowed enemy, as admission into the U. N. would undeniably do, could only be described as an act bordering on madness. It must not happen.

(Mr. JUDD asked and was given permission to revise and extend his remarks.)

Mr. MORANO. Mr. Speaker, will the gentlewoman yield?

Mrs. KELLY of New York. I yield.

Mr. MORANO. First of all, I want to say I am happy that the gentlewoman has brought up this resolution this morning. But, I want to say I have heard a report, which I hope is true, that Great Britain has decided not to press for the resolution to admit Communist China into the United Nations.

GENERAL LEAVE TO EXTEND

Mrs. KELLY of New York. Mr. Speaker, I ask unanimous consent that all Members may have permission to extend their remarks at this point.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

The SPEAKER. The question is on the resolution.

Mrs. KELLY of New York. Mr. Speaker, on that I ask for the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 391, nays 0, not voting 41, as follows:

[Roll No. 103]

YEAS—391

Abbitt
Abernethy
Adair
Addonizio
Albert
Alexander
Alger
Allen, Calif.
Allen, Ill.
Andersen, H. Carl
Andresen, August H.
Andrews
Anfuso
Arends
Ashley
Ashmore
Aspinall
Auchincloss
Avery
Ayres
Baker
Baldwin
Barden
Barrett
Bass, N. H.
Bates
Baumhart
Beamer
Becker
Bennett, Fla.
Bennett, Mich.
Berry
Betts
Blatnik
Boggs
Boland
Bolling
Bolton, Frances P.
Bolton, Oliver P.
Bonner
Bosch
Bow
Bowler
Boykin
Boyle
Bray
Brooks, La.
Brown, Ga.
Brown, Ohio
Brownson
Broyhill
Buckley
Budge
Burdick
Burnside
Bush
Byrd
Byrne, Pa.
Byrnes, Wis.
Canfield
Cannon
Carlyle
Carrigg
Cederberg
Celler
Chase
Chelf
Chenoweth
Chiperfield
Chudoff
Church
Clark
Clevenger
Colmer
Cooley
Coon
Cooper
Corbett
Coudert
Cramer
Cretella
Crumpacker
Cunningham
Curtis, Mass.
Curtis, Mo.
Dague
Davidson
Davis, Ga.
Davis, Tenn.
Dawson, Ill.
Dawson, Utah
Deane
Delaney
Dempsey
Denton
Derounian
Devereux
Dies
Diggs
Dingell
Dixon
Dodd
Dollinger
Dolliver
Dondero
Donohue
Dorn, N. Y.
Dorn, S. C.
Dowdy
Doyle
Durham
Edmondson
Elliott
Ellsworth
Engle
Evins
Fallon
Fascell
Feighan
Fenton
Fernandez
Fino
Fisher
Fjare
Flood
Flynt
Fogarty
Forand
Ford
Forrester
Fountain
Frazier
Frelinghuysen
Friedel
Fulton
Garmatz
Gary
Gentry
George
Grant
Gray
Green, Oreg.
Green, Pa.
Gregory
Griffiths
Gross
Gubser
Gwinn
Hagen
Hale
Haley
Halleck
Hand
Harden
Hardy
Harris
Harrison, Nebr.
Harrison, Va.
Harvey
Hays, Ark.
Hays, Ohio
Hayworth
Healey
Henderson
Herlong
Heselton
Hess
Hiestand
Hill
Hillings
Hinshaw
Hoeven
Hoffman, Mich.
Holifield
Holland
Holmes
Holt
Holtzman
Hope
Horan
Hosmer
Huddleston
Hull
Hyde
Ikard
Jackson
James
Jarman
Jenkins
Jennings
Jensen
Johansen
Johnson, Calif.
Johnson, Wis.
Jonas
Jones, Ala.
Jones, Mo.
Jones, N. C.
Judd
Karsten
Kean
Kearney
Kearns
Keating
Kee
Kelly, N. Y.
Keogh
Kilburn
Kilday
Kilgore
King, Calif.
King, Pa.
Kirwan
Klein
Kluczynski
Knox
Knutson
Krueger
Laird
Landrum
Lanham
Lankford
Latham
LeCompte
Lesinski
Lipscomb
Long
Lovre
McCarthy
McConnell
McCormack
McCulloch
McDonough
McGregor
McIntire
McMillan
McVey
Macdonald
Machrowicz
Mack, Ill.
Mack, Wash.
Madden
Magnuson
Mahon
Mailliard
Marshall
Martin
Mason
Matthews
Meader
Merrow
Metcalf
Miller, Calif.
Miller, Md.
Miller, Nebr.
Miller, N. Y.
Mills

Minshall
Morano
Morrison
Moss
Moulder
Multer
Mumma
Murray, Ill.
Murray, Tenn.
Natcher
Nicholson
Norblad
Norrell
O'Brien, Ill.
O'Brien, N. Y.
O'Hara, Ill.
O'Konski
O'Neill
Osmers
Ostertag
Patterson
Pelly
Perkins
Pfost
Philbin
Phillips
Pilcher
Pillion
Poage
Poff
Powell
Preston
Price
Quigley
Rabaut
Radwan
Rains
Ray
Reece, Tenn.
Reed, N. Y.
Rees, Kans.
Reuss
Rhodes, Ariz.
Rhodes, Pa.
Richards
Riehlman
Riley
Rivers
Roberts
Robeson, Va.
Robsion, Ky.
Rodino
Rogers, Colo.
Rogers, Fla.
Rogers, Mass.
Rogers, Tex.
Rooney
Roosevelt
Rutherford
Sadlak
St. George
Saylor
Schenck
Schwengel
Scott
Scrivner
Seely-Brown
Selden
Sheehan
Shelley
Sheppard
Short
Shuford
Sikes
Siler
Simpson, Ill.
Simpson, Pa.
Sisk
Smith, Kans.
Smith, Miss.
Smith, Va.
Smith, Wis.
Spence
Springer
Staggers
Steed
Sullivan
Taber
Talle
Taylor
Teague, Calif.
Teague, Tex.
Thomas
Thompson, Mich.
Thompson, N. J.
Thompson, Tex.
Thomson, Wyo.
Tollefson
Trimble
Tuck
Tumulty
Udall
Utt
Vanik
Van Pelt
Van Zandt
Velde
Vinson
Vorys
Vursell
Wainwright
Watts
Weaver
Westland
Wharton
Whitten
Widnall
Wier
Wigglesworth
Williams, Miss.
Williams, N. J.
Williams, N. Y.
Willis
Wilson, Calif.
Wilson, Ind.
Winstead
Withrow
Wolcott
Wolverton
Wright
Yates
Younger
Zablocki
Zelenko

NOT VOTING—41

Bailey
Bass, Tenn.
Belcher
Bell
Bentley
Blitch
Brooks, Tex.
Burleson
Carnahan
Chatham
Christopher
Cole
Davis, Wis.
Donovan
Eberharter
Gamble
Gathings
Gavin
Gordon
Hébert
Hoffman, Ill.
Kelley, Pa.
Lane
McDowell
Mollohan
Morgan
Nelson
O'Hara, Minn.
Passman
Patman
Polk
Priest
Prouty
Scherer
Scudder
Sieminski
Thompson, La.
Thornberry
Walter
Wickersham
Young

So the concurrent resolution was agreed to.

The Clerk announced the following pairs:

Mr. Brooks of Texas with Mr. Scherer.
Mr. Patman with Mr. Cole.
Mr. Bell with Mr. Gavin.
Mr. Thornberry with Mr. O'Hara of Minnesota.
Mr. Hébert with Mr. Prouty.
Mr. Thompson of Louisiana with Mr. Belcher.
Mr. Carnahan with Mr. Hoffman of Illinois.
Mr. Burleson with Mr. Gamble.
Mr. Bailey with Mr. Davis of Wisconsin.
Mr. Mollohan with Mr. Nelson.
Mr. Gordon with Mr. Scudder.
Mr. Gathings with Mr. Young.
Mr. Wickersham with Mr. Bentley.

The result of the vote was announced as above recorded.

SUPPLEMENTAL APPROPRIATION BILL, FISCAL YEAR 1957

Mr. CANNON. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 12138) making supplemental appropriations for the fiscal year ending June 30, 1957, and for other purposes, with Senate amendments thereto, disagree to the Senate amendments and agree to the conference asked by the Senate.

The SPEAKER. Is there objection to the request of the gentleman from Missouri? [After a pause.] The Chair hears none, and appoints the following conferees: Messrs. CANNON, MAHON, SHEPPARD, THOMAS, KIRWAN, NORRELL, WHITTEN, ANDREWS, ROONEY, GARY, FOGARTY, SIKES, PRESTON, RABAUT, TABER, WIGGLESWORTH, JENSEN, H. CARL ANDERSEN, HORAN, CANFIELD, FENTON, PHILLIPS, SCRIVNER, COUDERT, CLEVENGER, WILSON of Indiana, and FORD.

IMPROVING GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES

Mr. DAWSON of Illinois. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, with House amendments thereto, insist on the House amendments, and agree to the conference asked by the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Illinois? [After a pause.] The Chair hears none, and appoints the following conferees: Mr. DAWSON of Illinois, Mr. JONES of Alabama, Mr. KILGORE, Mr. FASCELL, Mrs. HARDEN, Mr. BROWN of Ohio, and Mr. LIPSCOMB.

CONSTRUCTION OF FACILITIES FOR RESEARCH IN CRIPPLING AND KILLING DISEASES

Mr. HARRIS. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (S. 849) to provide assistance to certain non-Federal institutions for construction of facilities for research in crippling and killing diseases such as cancer, heart disease, poliomyelitis, nervous disorders, mental illness, arthritis and rheumatism, blindness, cerebral palsy, tuberculosis, multiple sclerosis, epilepsy, cystic fibrosis, and muscular dystrophy, and for other purposes, with House amendments thereto, insist on the House amendments, and agree to the conference asked by the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas? [After a pause.] The Chair hears none, and appoints the following conferees: Messrs. HARRIS, CARLYLE, ROBERTS, DIES, WOLVERTON, HINSHAW, and HESELTON.

CHAMBER OF COMMERCE OF ROLLA, MO.

Mr. COOLEY. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 7723) to authorize the Secretary of Agriculture to convey certain lands in Phelps County, Mo., to the Chamber of Commerce of Rolla, Mo., with a Senate amendment thereto, and concur in the Senate amendment.

The Clerk read the title of the bill.

The Clerk read the Senate amendment, as follows:

Page 2, after line 4, insert:

"SEC. 2. The conveyance authorized by this act shall provide that in the event that the lands cease to be used for public purposes all right, title, and interest therein shall immediately revert to and revest in the United States."

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

The Senate amendment was concurred in.

A motion to reconsider was laid on the table.

COMMITTEE ON AGRICULTURE

Mr. COOLEY. Mr. Speaker, I ask unanimous consent that the Committee on Agriculture may have until midnight tonight to file reports on the following bills: S. 2216, S. 1079, S. 4058, H. R. 5275, and H. R. 11950.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

ELKINS, W. VA.

Mr. CELLER submitted the following conference report and statement on the bill (S. 2182) for the relief of the city of Elkins, W. Va.:

CONFERENCE REPORT (H. REPT. NO. 2759)

The committee of conference on the disagreeing votes of the two Houses on the entitled, "An Act for the relief of the city of Elkins, West Virginia," having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its amendment and agree to the same.

E. L. FORRESTER,
HAROLD D. DONOHUE,
WILLIAM E. MILLER,
Managers on the Part of the House.

PRICE DANIEL,
JOSEPH C. O'MAHONEY,
Managers on the Part of the Senate.

STATEMENT

The managers on the part of House at the conference on the disagreeing votes of the two Houses on the amendment of the House to the bill (S. 2182) entitled "An Act for the relief of the city of Elkins, West Virginia", submit the following statement in explanation of the effect of the action agreed upon and recommended in the accompanying conference report as to each of such amendments, namely:

When this proposed legislation passed the Senate it provided:

"That the city of Elkins, West Virginia, is hereby relieved of all liability to repay to the United States the sum of $75,000 (plus any interest which may have accrued thereon), which amount represents a loan made to such city by the United States on April 5, 1943, through the Reconstruction Finance Corporation. In the settlement of the accounts of any certifying or disbursing officer of the United States full credit shall be given for all amounts for which liability is relieved by this Act."

The House amended the bill to read as follows:

"That all of the Airport Revenue Bonds issued by the city of Elkins, West Virginia, presently held by the Reconstruction Finance

Digest of CONGRESSIONAL PROCEEDINGS
OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

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84th-2nd, No. 123

CONTENTS

HIGHLIGHTS: Senate committee reported nomination of Kermit H. Hansen to be FHA Administrator. Senate confirmed nominations of members of Commission on Increased Industrial Use of Agricultural Products. Senate rejected Hells Canyon dam bill. Senate began consideration of executive pay bill. Senate conferees appointed on Public Law 480 bill. House passed rubber research laboratory disposal bill. House agreed to Senate amendments to bill broadening law on practices in marketing perishable commodities. House passed bill authorizing certain land exchanges between USDA and Defense Department. House Rules Committee cleared flood insurance bill.
(Continued on page 6)

HOUSE

1. RUBBER. Passed without amendment S. 3832, to provide for disposal of the Government-owned synthetic rubber research laboratories at Akron, O. This bill is now ready for the President. p. 12364

2. MARKETING. Agreed to Senate amendments to H. R. 5337, to amend the provisions of the Perishable Agricultural Commodities Act so as to eliminate the necessity of proving "fraudulent purpose" in connection with the misbranding of any perishable agricultural commodity, make misrepresentation of the "region of origin" a violation of the Act, authorize the Secretary of Agriculture to change the annual license fee from $15 to any amount not in excess of $25, enlarge the grounds for denial of a license to permit denial, under certain circumstances, permit suspension or revocation (instead of revocation only) of the license of any licensee who after proper notice continues to employ in a responsible position any person whose license or whose previous firm's license has been revoked or suspended (rather than revoked only) and restrict the Secretary's authority to permit such employment after 1 year to cases in which the revocation or suspension was for failure to pay a reparation award , and

extend the record inspection provision to permit such record inspection as may be required (a) to determine the ownership, control, packer, or State, county or region of origin in connection with commodity inspection or (b) to ascertain whether the record keeping provisions of the Act are being complied with; and to permit inspection of any lot of any perishable agricultural commodity covered by the Act. This bill is now ready for the President. p. 12366

3. FORESTRY. Passed without amendment S. 2572, to authorize the interchange of lands between this Department and the military departments of the Defense Department. This bill is now ready for the President. p. 12373

4. SOCIAL SECURITY. Conferees were appointed on H. R. 7225, to amend and revise title II of the Social Security Act. Senate conferees were appointed on July 17. p. 12364

5. FARM LABOR. The Interstate and Foreign Commerce Committee reported with amendment S. 3391, to provide for reasonable requirements regarding comfort, safety, etc., of the interstate transportation of migrant farm workers (H. Rept. 2810). p. 12398

6. FLOOD INSURANCE. The Rules Committee reported a resolution for consideration of S. 3732, to provide insurance against flood damage. p. 12398

7. WOOL IMPORTS. The Ways and Means Committee ordered reported (but did not actually report) H. R. 12227, to permit the duty-free importation of wool of a type used in the manufacture of carpets. p. D841

8. BUDGET; ACCOUNTING. The conferees agreed to file a report (but did not actually file a report) on S. 3897, to improve governmental budgeting and accounting methods and procedures. ~~p. D841~~

9. FARM PROGRAM. Rep. Henderson criticized government controls on the farm economy and the Democratic administrations' farm policies. p. 12394

10. TARIFFS. The Ways and Means Committee reported with amendment H. R. 12254, to provide additional time for the Tariff Commission to review the customs tariff schedules (H. Rept. 2815). p. 12398

11. ELECTRIFICATION. Rep. Rogers urged that consideration be given to atomic energy electric power facilities in the New England area as a means of providing a cheap source of power and increasing the industrial potential of that area. p. 12395

12. FOREIGN AFFAIRS. Both Houses received from the President a report on U. S. participation in the United Nations Organization (H. Doc. 455); to Senate Foregin Relations and House Foreign Affairs Committees. pp. 12239, 12362

13. LEGISLATIVE PROGRAM. Rep. McCormack announced that the House will be in session on Sat., July 21, and that on Mon., July 23, the Consent Calandar will be called and also consideration of bills under suspension of the rules will be in order. p. 12374

SENATE

14. NOMINATIONS. The Agriculture and Forestry Committee reported the nomination of Kermit H. Hansen to be Administrator of the Farmers' Home Administration. pp.

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withdrawn and the withdrawal lifted. This bill will now be sent to the President p. 12676

Passed as reported HR 4096, to provide for the disposal of public lands within highway, telephone, and pipeline withdrawals in Alaska, subject to appropriate easements. p. 12676

Passed without amendment S. 4059, providing for price reporting and research with respect to forest products. p. 12761

16. PROPERTY. Passed without amendment H. R. 10946, to provide for the disposition of surplus personal property to the Territorial government of Alaska until Dec. 31, 1958. This bill will now be sent to the President. p. 12676

17. SEEDS. Passed as reported H. R. 11522, to provide for the extension of certain provisions of Federal laws, including the Federal Seed Act, the Vocational Rehabilitation Act, and wildlife restoration authorities, to Guam. p. 12678

18. LANDS. Passed over, at the request of Sen. Purtell, S. 3957, to amend the act authorizing the exchange of certain farm units in order to limit the time during which applications may be made under the act. p. 12684

Passed over, at the request of Sen. Purtell S. Res. 281, relative to the conservation and development of land and water resources. p. 12684

Passed without amendment H. J. Res. 642, to authorize and direct the Secretary of Agriculture to quitclaim certain property in Coahoma Co., Miss., to the Home Demonstration Club of Rena Lara, Miss. This measure will now be sent to the President. p. 12727

19. TRANSPORTATION. Passed without amendment S. J. Res. 197, authorizing the President to proclaim the period from Oct. 22 to 27, 1956, as National Transportation Week. p. 12686

20. FARM-CITY WEEK. Passed without amendment H. J. Res. 317, designating the week of Nov. 16 to 22, 1956, as National Farm-City Week. This measure is now ready for the President. p. 12686

21. FOREIGN AFFAIRS. Sen. Mansfield discussed the foreign policy problems between the U. S. and Russia. p. 12703

22. RECLAMATION. Agreed to the conference report on S. 497, to authorize the Secretary of the Interior to construct, operate, and maintain the Wahoe reclamation project, Nev. and Calif. This bill will now be sent to the President. p. 12708

23. PERSONNEL. Passed as reported S. 3725, to provide for increases in the annuities of annuitants under the Civil Service Retirement Act of May 29, 1930, as amended. p. 12723

24. FARM PROGRAM. Sen. Stennis discussed the "economic plight" of the farmer. p. 12727

25. EXECUTIVE PAY; RETIREMENT. The "Daily Digest" states that "Conferees met in executive session to resolve the difference between the Senate- and House-passed versions of H. R. 7619, to adjust the rates of compensation of heads of executive departments and of certain other Federal officials, but did not conclude their work and will meet again tomorrow." p. D870

26. APPROPRIATIONS. Agreed to waive the rule providing that all reports of committees lie over 1 day for consideration, in order that the second supplemental appropriation bill for 1957 may be considered when received. p. 12667

27. LEGISLATIVE PROGRAM. Sen. Johnson announced that the mutual security appropriation bill will be further considered today. p. 12762

HOUSE

28. APPROPRIATIONS. Agreed to the conference report on H. R. 12138, the supplemental appropriation bill for 1957. The House concurred in the Senate amendment providing $40,000 for the Baker National Forest ski shelter; and adopted amendments to the Senate amendments providing $16,250,000 (instead of $18,915,000) for animal disease laboratory facilities and providing that land acquisition to the Superior National Forest shall be subject to local governmental approval. p. 12763

Passed as reported H. R. 11682, to facilitate the control and eradication of certain animal diseases, to facilitate the carrying out of agricultural and related programs, to facilitate the agricultural attache program, and to facilitate the operation of the FHA, FCIC, and FS. p. 12806

29. BUDGETING; ACCOUNTING. Received the conference report on S. 3897, to improve Governmental budgeting and accounting methods and procedures. The statement of the House conferees includes the following: "The conference substitute is substantially the bill as passed by the House with the deletion of the minor amendments which the House made to H. R. 11526 as originally introduced. The provision for appropriations on an accrued expenditure basis which the House rejected remains out of the substitute.

"The substitute, as in the House-passed bill, provides for budget information on program costs and accomplishments; departmental budgeting on a cost basis; synchronization of organization structure, budget classifications and accounting systems; accounting on an accrual basis; and simplification in the subdivision of appropriations or funds.

"This legislation does not provide for a major overhaul of the Government budget and accounting systems nor does it correct all of the weaknesses that have been criticized. It does, however, provide progressive forward steps on the basis of which many improvements can be made. Due to the impending adjournment it is not likely that further action can be taken in this Congress." (H. Rept. 2872). p. 12770

30. FORESTRY. Rep. Gavin objected to the consideration of S. 1079, to authorize the Secretary of Agriculture to sell at not less than the appraised value, and under such terms and conditions as he deems appropriate, lands in the national forests which are isolated parcels or narrow projecting strips, when he finds such lands suitable for private ownership and better adapted to commercial, agricultural, residential, or private purposes other than to national forest purposes. p. 12794

Passed without amendment S. 2216, to amend the Act of March 4, 1915, to permit the use and occupancy of national forest lands for industrial and commercial purposes, and by States or political subdivisions for constructing facilities for education or other public uses. This bill is now ready for the President. p. 12794

31. LANDS. At the request of Rep. Aspinall (for Rep. Dempsey), passed over H. R. 8250, to require conformance with State and Territorial fish and game laws and

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IMPROVING GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES, AND FOR OTHER PURPOSES

July 23, 1956.—Ordered to be printed

Mr. Dawson of Illinois, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany S. 3897]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the House to the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its disagreement to the amendment of the House and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the House amendment insert the following:

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

Sec. 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting "(a)" after the words "Sec. 201."; by changing subsection (a) to subparagraph (1); by adding after sul paragraph (1) a new subparagraph "(2) at such times as may be practicable, information on program costs and accomplishments"; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively.

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "Sec. 216." and by adding the following new subsections:

"(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their

subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"ACCOUNTING AND BUDGET CLASSIFICATIONS

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Section 118 of such Act is amended by inserting "113 (c)" after the words "section 111".

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

And the House agree to same.

WILLIAM L. DAWSON,
ROBT. E. JONES,
JOE M. KILGORE,
DANTE B. FASCELL,
CECIL M. HARDEN,
CLARENCE J. BROWN,
GLENARD P. LIPSCOMB,
Managers on the Part of the House.

JOHN F. KENNEDY,
HUBERT H. HUMPHREY,
THOMAS A. WOFFORD,
STUART SYMINGTON,
Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The conference substitute is substantially the bill as passed by the House with the deletion of the minor amendments which the House made to H. R. 11526 as originally introduced. The provision for appropriations on an accrued expenditure basis which the House rejected remains out of the substitute.

The substitute, as in the House-passed bill, provides for budget information on program costs and accomplishments; departmental budgeting on a cost basis; synchronization of organization structure, budget classifications and accounting systems; accounting on an accrual basis; and simplification in the subdivision of appropriations or funds.

This legislation does not provide for a major overhaul of the Government's budget and accounting systems nor does it correct all of the weaknesses that have been criticized. It does, however, provide progressive forward steps on the basis of which many improvements can be made. Due to the impending adjournment it is not likely that further action can be taken in this Congress.

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Managers on the Part of the House.

O

"For payment to Jane R. Barkley, widow of Alben W. Barkley, late a Senator from the State of Kentucky, $22,500."

Senate amendment No. 59: Page 38, line 6, insert:

"Contingent expenses of the Senate

"Miscellaneous items: For an additional amount for miscellaneous items, fiscal year 1956, $84,000, to be derived by transfer from the appropriation, Salaries, officers and employees, Senate', fiscal year 1956."

Senate amendment No. 60: Page 38, line 11, insert:

"Joint Committee in Inaugural Ceremonies of 1957: For salaries and expenses of conducting the inaugural ceremonies of the President and Vice President of the United States, January 21, 1957, in accordance with such program as may be adopted by the joint committee authorized by concurrent resolution of the Senate and House of Representatives, $215,000."

Senate amendment No. 61: Page 39, line 1, insert:

"GOVERNMENT PRINTING OFFICE

"Revolving fund

"The statute reference in the third paragraph under this head in the Legislative Branch Appropriation Act, 1957, is hereby amended to read '67 Stat. 330, August 1, 1953'."

Mr. CANNON. Mr. Speaker, I move that the House recede and concur in the amendments of the Senate numbered 16, 26, 34, 38, 45, 58, 59, 60, and 61.

The motion was agreed to.

The SPEAKER. The Clerk will report the next amendment in disagreement.

The Clerk read as follows:

Senate amendment No. 22: Page 12, line 16, insert:

"SEC. 311. Not exceeding $25 million of the funds available to the Department of Defense and the Coast Guard for military construction may be used for capital expenditures other than for amortization of outstanding mortgages on any housing project constructed under title VIII of the National Housing Act as in effect prior to the Housing Amendments of 1955, in accordance with section 420 of the Military Construction Act of 1956: *Provided*, That the Secretary of Defense or his designee, in acquiring such housing projects, may make purchases subject to any existing mortgage or assume such mortgage."

Mr. CANNON. Mr. Speaker, I move that the House recede and concur in the Senate amendment with an amendment.

The Clerk read as follows:

Mr. CANNON moves that the House recede from its disagreement to the amendment of the Senate numbered 22, and concur therein with an amendment, as follows: In lieu of the matter proposed by said amendment insert:

"SEC. 310. Not exceeding $5 million of the funds available to the Department of Defense for military construction may be used for capital expenditures other than for amortization of outstanding mortgages on any housing project constructed under title VIII of the National Housing Act as in effect prior to the Housing Amendments of 1955, in accordance with applicable provisions as may be authorized by law during the 2d session of the 84th Congress: *Provided*, That the Secretary of Defense or his designee, in acquiring such housing projects, may make purchases subject to any existing mortgage or assume such mortgage."

The motion was agreed to.

The SPEAKER. The Clerk will report the next amendment in disagreement.

The Clerk read as follows:

Senate amendment No. 27: On page 14, line 20, insert the following:

"Repair, improvement, and equipment of federally owned buildings outside the District of Columbia

"For an additional amount for 'Repair, improvement, and equipment of federally Columbia,' $50,000, to remain available until expended."

Mr. CANNON. Mr. Speaker, I move that the House recede and concur in the Senate amendment with an amendment.

The Clerk read as follows:

Mr. CANNON moves that the House recede from its disagreement to the amendment of the Senate numbered 27, and concur therein with an amendment, as follows: In lieu of the matter proposed by said amendment insert:

"Repair, improvement, and equipment of federally owned buildings outside the District of Columbia

"For an additional amount for 'Repair, improvement, and equipment of federally owned buildings outside the District of Columbia,' not to exceed $35,000, to remain available until expended."

The motion was agreed to.

The SPEAKER. The Clerk will report the next amendment in disagreement.

The Clerk read as follows:

Senate amendment No. 33: Page 23, line 3, insert the following:

"Acquisition of lands for national forests

"Special Acts

"For the acquisition of forest land within the Superior National Forest, Minn., under the provisions of the act of June 22, 1948 (62 Stat. 570; 16 U. S. C. 577c–577h), as amended, $500,000, to remain available until expended."

Mr. CANNON. Mr. Speaker, I move that the House recede and concur in the Senate amendment with an amendment.

The Clerk read as follows:

Mr. CANNON moves that the House recede from its disagreement to the amendment of the Senate numbered 33, and concur therein with an amendment, as follows: After the word "expended", insert ": *Provided*, That no part of this appropriation shall be used for the acquisition of any land without the approval of the local government concerned."

The motion was agreed to.

The SPEAKER. The Clerk will report the next amendment in disagreement.

The Clerk read as follows:

Senate amendment No. 36: Page 25, line 1 insert:

"DISEASE AND SANITATION INVESTIGATIONS AND CONTROL, TERRITORY OF ALASKA

"For an additional amount for 'Disease and sanitation investigations and control, Territory of Alaska,' for the purpose of assisting the Territory in making a comprehensive survey of the need for the construction of mental health facilities, $25,000: *Provided*, That this paragraph shall be effective only upon the enactment into law of H. R. 6376, 84th Congress."

Mr. CANNON. Mr. Speaker, I move the House recede and concur in the Senate amendment with an amendment.

The Clerk read as follows:

Mr. CANNON moves that the House recede from its disagreement to the amendment of the Senate numbered 36, and concur therein with an amendment, as follows: In line 5 of the amendment, delete the words "assisting the Territory in."

Mr. CANNON. Mr. Speaker, I yield 5 minutes to the gentleman from New York [Mr. HAND].

Mr. HAND. Mr. Speaker, one of my principal objections to amendment owned buildings outside the District of No. 36 were to the words "assisting the Territory in." Leaving the words "assisting the Territory in," which is the language of the conference agreement, is not only completely unnecessary aid to the Territory of Alaska in merely planning this mental facility which we have been talking about for some time, but, as a matter of fact, is actually contrary to the legislative authority on which this appropriation is based.

I have not been able to obtain a printed copy of the bill, but I think I have, and accurately, section 372, subparagraph (b) which is the authority on which this $25,000 appropriation is based. It provides as follows:

Such facility shall be scheduled for construction in accordance with a comprehensive construction program developed by the Territory in consultation with the Public Health Service and approved by the Surgeon General.

When we had the language confronting us now in section 36 we not only have appropriated the $25,000 but we are seeking to strike out, or at least the conferees were, the words "assisting the Territory in" which makes the entire burden, and it is a small burden financially, the entire burden of the $25,000 starting the planning of this facility on the United States, and no part of it is on the Territory of Alaska.

Mr. Speaker, as I have said, the law on which this appropriation is based provides very defintely that the Territory shall make the comprehensive survey for their own mental health facility in cooperation with the Public Health Service. But when the conferees struck out any part of the obligation of the Territory of Alaska to help, I think the language is objectionable.

Of course, there is a great deal of controversy about the building of this facility at all. I do not think anyone objects to a mental health facility being built in the Territory of Alaska. But, there certainly is ample room for objection to the United States building it for them. It is completely unprecedented. We do not build such facilities in any other State or any other Territory, and if it be argued that the Territory of Alaska is not able to build its own facility, the refutation of that is that they have insisted for a period of years that they are fully able to assume complete statehood. Their budget is in balance, and they have a budgetary surplus, yet we are asked to build this facility. We are now being asked to even plan it for them, in contravention of the basic legislative authority which says they must plan it for themselves.

I object to the motion, Mr. Speaker; I am opposed to the motion to recede and

concur, and I suggest that it be voted down.

Mr. CANNON. Mr. Speaker, I yield to the gentleman from New York [Mr. TABER].

Mr. TABER. Mr. Speaker, I am not anxious to embark the Government on the construction of this hospital, with the Government paying for it. The only thing I would be willing to do—and that is what this language will do at the present time if the motion offered by the gentleman from Missouri is adopted—would be to have an investigation, an independent survey made by the Government people rather than by the people of Alaska, as to whether or not there is need for it or whether it is justified. I am very much of the opinion that we ought to have that investigation before we proceed with appropriating money to build the hospital or to make plans for it. I do not see how we would dare go ahead in this House and appropriate money without having it investigated. If this item is voted down, I should ask the investigatory process of the Committee on Appropriations to have an independent investigation of it made before that was done. If this is allowed, I would insist upon the Public Health Service or the Department of Health, Education, and Welfare making an independent investigation with this money. It does not call for plans, because the language itself says "Making a comprehensive survey of the need for the construction of mental health facilities." Well, now, that is a little different than making plans.

Mr. Speaker, I think that is all I care to say.

Mr. CANNON. Mr. Speaker, I yield to the gentleman from Iowa [Mr. JENSEN].

Mr. JENSEN. Mr. Speaker, I think further explanation should be made about this problem of the mentally ill in Alaska. We have, for many years, brought most of the mental patients from Alaska to Portland, Oreg., where they have been placed in an asylum. True, they have been treated good at that asylum. The cost has been about $6 a day per patient, which is very reasonable. I have always contended, as has most everybody who has been close to this problem, for many years that it borders on criminal, to bring the mental patients so far away from home to be incarcerated. Many of us long have felt that an asylum should be erected in Alaska where these mental patients could be closer to their loved ones. But, we could easily be maneuvered into a position where the taxpayers in the mainland would be called upon to pay the entire cost of this mental institution in Alaska. I feel Alaska should pay at least half of it. I do not object to spending $25,000 to investigate the need for this hospital. I should not like to see the Congress of the United States go on record obligating itself to the full cost of this mental institution.

Mr. Speaker, I should like the gentleman from Missouri, the chairman of the committee [Mr. CANNON] to please answer this question. Does the gentleman understand that if we were to permit this bill to pass as it was amended in conference, that the United States Government would be in any way obligated to pay the cost of the erection of a mental institution in Alaska, or any part of it.

Mr. CANNON. Mr. Speaker, in response to the gentleman's inquiry I will say that the bill answers that question, if the gentleman will read the amendment proposed. It provides:

This paragraph shall be effective only upon the enactment into law of H. R. 6376, 84th Congress.

Mr. JENSEN. So the gentleman feels that it is clear that the Congress of the United States will not be obligated to pay any of the cost under present conditions until such other bill to which the gentleman has referred has been enacted by the Congress, of erecting a menal hospital in Alaska.

Mr. CANNON. The bill H. R. 6376 will govern.

Mr. JENSEN. I thank the gentleman.

The SPEAKER. The question is on the motion offered by the gentleman from Missouri [Mr. CANNON].

The motion was agreed to.

A motion to reconsider the votes by which action was taken on the several motions was laid on the table.

GENERAL LEAVE TO EXTEND

Mr. CANNON. Mr. Speaker, I ask unanimous consent that all Members have 5 legislative days in which to extend their remarks in the RECORD on the conference report just agreed to.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES

Mr. DAWSON of Illinois submitted the following conference report and statement on the bill (S. 3897) to improve Governmental budgeting and accounting methods and procedures, and for other purposes:

CONFERENCE REPORT (H. REPT. No. 2872)

The committee of conference on the disagreeing votes of the two Houses on the amendment of the House to the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its disagreement to the amendment of the House and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the House amendment insert the following:

"AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

"SEC. 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting '(a)' after the words 'SEC. 201.'; by changing subsection (a) to subparagraph (1); by adding after subparagraph (1) a new subparagraph '(2) at such times as may be practicable, information on program costs and accomplishments'; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively.

"(b) Section 216 of such Act, as amended (31 U. S. C. 24), is further amended by inserting '(a)' after the words 'SEC. 216.' and by adding the following new subsections:

"'(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"'(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets.'

"AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

"SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section:

"'ACCOUNTING AND BUDGET CLASSIFICATIONS

"'SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units.'

"(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"'(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system.'

"(c) Section 118 of such Act is amended by inserting '113 (c)' after the words 'section 111'.

"SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

"SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: 'In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.'"

And the House agree to the same.

WILLIAM L. DAWSON,
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CLARENCE J. BROWN,
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Managers on the Part of the House.

JOHN F. KENNEDY,
HUBERT H. HUMPHREY,
THOMAS A. WOFFORD,
STUART SYMINGTON,
Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon

by the conferees and recommended in the accompanying conference report:

The conference substitute is substantially the bill as passed by the House with the deletion of the minor amendments which the House made to H. R. 11526 as originally introduced. The provision for appropriations on an accrued expenditure basis which the House rejected remains out of the substitute.

The substitute, as in the House-passed bill, provides for budget information on program costs and accomplishments; departmental budgeting on a cost basis; synchronization of organization structure, budget classifications and accounting systems; accounting on an accrual basis; and simplification in the subdivision of appropriations or funds.

This legislation does not provide for a major overhaul of the Government's budget and accounting systems nor does it correct all of the weaknesses that have been criticized. It does, however, provide progressive forward steps on the basis of which many improvements can be made. Due to the impending adjournment it is not likely that further action can be taken in this Congress.

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GLENARD P. LIPSCOMB,
Managers on the Part of the House.

Mr. DAWSON of Illinois. Mr. Speaker, I ask unanimous consent for the immediate consideration of the conference report on the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

There was no objection.

Mr. DAWSON of Illinois. Mr. Speaker, I ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

There was no objection.

The Clerk read the statement.

Mr. HOFFMAN of Michigan. Mr. Speaker, will the gentleman yield?

Mr. DAWSON of Illinois. I yield.

Mr. HOFFMAN of Michigan. Is this the bill on which the gentleman from California [Mr. LIPSCOMB] did the work?

Mr. DAWSON of Illinois. He did a very fine job, both on the bill and in conference.

(Mr. BOLAND asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. BOLAND. Mr. Speaker, I rise to express my approval of the conference report on S. 3897. I had hoped that the managers on the part of the House would go further and accept one of the most desired parts of the Senate bill. That would have embraced the element of actual appropriations on an accrued basis which seemed to me to be the heart of the bill. However, the conferees did not see fit to adopt this proposal. It is my understanding that the agreement between Houses provides for accounting and bookkeeping on an accrued basis and budgeting on a cost basis. These are commendable ends.

Mr. Speaker, the bill approved is one that incorporates features of the Hoover Commission and its task force on budgeting and accounting. It is a step in the right direction and points toward the opportunity of gaining the real objective of providing authorizing appropriations to be made on the basis of expenditures actually made or accrued by the various departments and agencies during any single fiscal year. In this connection, I commend to the House the following editorial from the Springfield (Mass.) Daily News of July 13, 1956:

LET'S SAVE THAT $4 BILLION

Although the bills to carry out Hoover Commission recommendations for the improvement of Federal budgeting and accounting practices received no boost when President Eisenhower issued his 14 point priority list on legislation this week, there are many Americans who consider that these bills constitute a most important piece of legislation.

Proponents of the reform say that it will save the Government about $4 billion a year. In the Senate, the measure to put the recommendation into effect was presented by Senator JOHN F. KENNEDY, Democrat, of Massachusetts; and Senator FREDERICK G. PAYNE, Republican, of Maine, and received support on both sides of the aisle. The Senate gave its approval, but the Government Operations Committee of the House has stalled two bills designed to put into effect the same changes included in the Kennedy-Payne bill.

The House bills have been presented by Representative PAUL G. ROGERS, of Florida, a Democrat, and by Representative GLENARD P. LIPSCOMB, of California, a Republican.

The estimate that the Government would save $4 billion yearly if it adopted the recommendation was made by J. Harold Stewart, of Boston, a former head of the American Institute of Accountaints and the man who directed the Hoover Commission task force on budget studies.

The Hoover Commission group pointed out that private industries have effected savings of as much as 10 percent by applying close "accrual" accounting to the so-called "controllable" items of expense. Under this system, an accurate record is kept of the charges for goods and services received in a given year and that record is used for budgeting for the year ahead. Private industry does this; the Government does not.

Because the Government does not use an "accrual expenditure" system, various departments get more money than they can possibly spend during a year and have billions left over at the end of the fiscal period. In Washington, this sports is known as "squirreling", and department heads use it to hide away bundles of money for later use, oftentimes after the Congress which appropriated it is out of office.

Under the present system, only a few billions can thus be hidden in each department. For instance, when the Army's kitty for guided missiles, tanks, and ammunition swelled over the $15 billion mark, Congress noticed it and shut off new appropriations for such items until the huge reserve was reduced.

However, at the end of the fiscal year on June 30, such nest eggs hidden away by various Federal departments exceeded $50 billion.

The waste of $4 billion every year by such practices does not complete the full cost of this antiquated accounting system. When billions are being carried over from previous fiscal years, Congress has little control over the amount of money being spent in any given year. Also, Congress gets only a vague idea of how the Government agencies are being conducted. Congress doesn't know the Government's inventories, fluctuations in prices paid for goods or services or the condition of capital equipment.

The President's priority list for legislation to be acted upon before Congress adjourns includes postal-rate increases, pay hikes for top Government executives, amendments to the contract renegotiation legislation, and the Fryingpan-Arkansas project. However, no mention was made of the Hoover Commission bills to save $4 billion and to replace the antiquated accounting policies of the Government.

The Citizens Committee for the Hoover Report does not share the President's view of the legislation. The Lipscomb and Rogers measures are certainly on its priority list. In fact, the committee says that this is probably the most vital issue that will come out of the second Hoover Commission campaign.

The Hoover Commission's recommendations to reform the Post Office Department have been given scant notice, but the President has put on his priority list a bill to hike the postal rates instead.

It will be unfortunate if the Hoover Commission recommendation on sound accounting practices is given the same brushoff by the administration. It is time that the Hoover Commission work be given something other than lipservice.

Mr. DAWSON of Illinois. Mr. Speaker, I move the previous question on the conference report.

The previous question was ordered.

The conference report was agreed to.

A motion to reconsider was laid on the table.

VIRGIN ISLANDS NATIONAL PARK

Mr. ENGLE submitted the following conference report and statement on the bill (H. R. 5299) to authorize the establishment of the Virgin Islands National Park, and for other purposes:

CONFERENCE REPORT (H. REPT. No. 2873)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 5299) to authorize the establishment of the Virgin Islands National Park, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendment with an amendment as follows: "That a portion of the Virgin Islands of the United States, containing outstanding scenic and other features of national significance, shall be established, as prescribed in section 2 hereof, as the 'Virgin Islands National Park'.

"The national park shall be administered and preserved by the Secretary of the Interior in its natural condition for the public benefit and inspiration, in accordance with the laws governing the administration of the national parks (16 U. S. C. 1, and the following).

"SEC. 2. The Secretary of the Interior is hereby authorized, subject to the following conditions and limitations, to proceed in such manner as he shall find to be necessary in the public interest to consummate the establishment of the Virgin Islands National Park:

"(a) The acreage of the national park shall be limited to a total of not more than nine thousand five hundred acres of land area, such total to be comprised of not more than fifteen acres on the island of Saint Thomas, and not more than nine thousand four hundred and eighty-five additional acres to be comprised of portions of the island of Saint John and such small islands, rocks, and cays not in excess of five hundred acres in the general vicinity thereof as may desirable for inclusion within the park;

"(b) Tentative exterior boundary lines, to include land not in excess of the aforesaid

acreage limitations, may be selected for the park in order to establish the particular areas in which land may be acquired pursuant to this Act, such tentative boundaries to be selected and adjusted as may be necessary by the Secretary of the Interior;

"(c) The Secretary, on behalf of the United States, is authorized to accept donations of real and personal property within the areas selected for the park until such time as the aforesaid total of nine thousand five hundred acres shall have been acquired for the park by the United States, and he may also accept donations of funds for the purposes of this Act;

"(d) Any Federal properties situated within the areas selected for the park, upon agreement by the particular agency administering such properties that such properties should be made available for the park, may be transferred without further authorization to the Secretary by such agency for purposes of this Act;

"(e) Establishment of the Virgin Islands National Park, in its initial phase, shall be and is hereby declared to be accomplished and effective for purposes of administration when a minimum acreage of not less than five thousand acres in Federal ownership for purposes of this Act shall have been acquired by the United States in specific areas containing such acquired lands to be designated by the Secretary; and

"(f) Notice of the establishment of the park as authorized and prescribed by this Act shall be published in the Federal Register.

"SEC. 3. There is hereby authorized to be appropriated from Federal funds a sum not in excess of $60,000 for capital improvements for said Virgin Islands National Park, and a sum of not in excess of $30,000 annually for the administration of the Virgin Islands National Park."

And the House agree to the same.

CLAIR ENGLE,
WAYNE N. ASPINALL,
JACK WESTLAND,
Managers on the Part of the House.

HENRY M. JACKSON,
ALAN BIBLE,
WILLIAM R. LAIRD III,
THOMAS N. KUCHEL,
BARRY GOLDWATER,
Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 5299) to authorize the establishment of the Virgin Islands National Park, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon and recommend in the accompanying conference report as to the amendments to the bill:

H. R. 5299 as passed by the House differed in the following respects from the Senate-passed version—

1. A House-passed provision limited to 3 years the time within which the Secretary of the Interior might accept, acquire, or receive by exchange, lands for park purposes. The House conferees receded from this language after it was pointed out by the National Park Service that such a time limitation would invite greatly increased costs by encouraging landowners to hold out for higher prices, and would tend to foster "deals" inimical to proper park management.

2. The House-passed bill carried a flat limitation of $60,000 for capital improvements, and $30,000 annually for administration. The Senate conferees agreed to accept this language.

3. The House bill stated that the park would not exceed 9,500 acres, with a maximum of 15 acres to be acquired on the island of St. Thomas. The remaining 9,485 acres would be comprised of portions of the Island of St. John and such small islands, rocks, and cays not in excess of 500 acres in the general vicinity thereof as might be desirable for inclusion in the park. The Senate conferees accepted this language and receded from the Senate amendment which would have provided for a total of 50 acres on St. Thomas, with the remaining 9,450 acres comprised of portions of St. John and small islands, rocks, and cays not in excess of 1,000 acres.

CLAIR ENGLE,
WAYNE N. ASPINALL,
JACK WESTLAND,
Managers on the Part of the House.

Mr. ENGLE. Mr. Speaker, I ask unanimous consent for the immediate consideration of the conference report on the bill, H. R. 5299.

The SPEAKER. Is there objection to the request of the gentleman from California?

There was no objection.

Mr. ENGLE. Mr. Speaker, I ask unanimous consent that the statement be read in lieu of the report.

The SPEAKER. Is there objection to the request of the gentleman from California?

There was no objection.

The Clerk read the statement.

The conference report was agreed to.

A motion to reconsider was laid on the table.

DISTRICT OF COLUMBIA BUSINESS

The SPEAKER. This is District of Columbia day. The Chair recognizes the gentleman from South Carolina [Mr. McMILLAN], chairman of the Committee on the District of Columbia.

COMPENSATION OF COMMISSIONERS OF THE DISTRICT OF COLUMBIA

Mr. McMILLAN. Mr. Speaker, I call up the bill (H. R. 12327) to provide that the compensation of the Commissioners of the District of Columbia shall be at the rate of $17,000 each per annum, and ask unanimous consent that the bill be considered in the House as in Committee of the Whole.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from South Carolina?

There was no objection.

The Clerk read the bill, as follows:

Be it enacted, etc., That, (a) except as provided in subsection (b) of this section, the compensation of the Commissioners of the District of Columbia shall be at the rate of $17,000 each per annum.

(b) The Engineer Commissioner, appointed from the Corps of Engineers, shall receive an annual compensation which, when added to any compensation he receives as an officer of the United States Army, will equal the compensation authorized for a Commissioner by subsection (a) of this section.

SEC. 2. The provisions of this act shall take effect on the first day of the first calendar month following the date of enactment of this act.

Mr. SIMPSON of Illinois. Mr. Speaker, will the gentleman yield?

Mr. McMILLAN. I yield.

Mr. SIMPSON of Illinois. I want to associate myself with the chairman of the Committee on the District of Columbia in introducing this bill. I do not know whether the Commissioners have asked for this increase, but I certainly think they are entitled to it.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

HISTORIC GUN MOUNTINGS AND CARRIAGES FROM DISTRICT OF COLUMBIA REFORMATORY AT LORTON, VA.

Mr. McMILLAN. Mr. Speaker, I call up the bill (H. R. 11968) to permit the State of New York to purchase from the District of Columbia Reformatory at Lorton, Va., gun mountings and carriages for guns for use at historic sites and for museum display purposes, and ask unanimous consent that the bill be considered in the House as in Committee of the Whole.

The SPEAKER. Is there objection to the request of the gentleman from South Carolina?

There was no objection.

The Clerk read the bill, as follows:

Be it enacted, etc., That the State of New York is authorized to purchase from the District of Columbia Reformatory located at Lorton, Va., at fair market prices determined by the Commissioners of the District of Columbia, gun mountings and carriages for guns for use at historic sites and for museum display purposes. Receipts from sales authorized under this act shall be deposited to the credit of the working capital fund established for the industrial enterprises at the workhouse and reformatory of the District of Columbia to the same extent and in the same manner as provided for receipts from the sale of products and services of such industrial enterprises in the last paragraph under the heading "Adult Correctional Service" in the first section of the District of Columbia Appropriation Act, 1947 (60 Stat. 514).

With the following committee amendment:

Page 1, line 3, strike out "the State of New York" and insert "any State of the United States or any political subdivision of any such State."

The committee amendment was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed.

The title was amended so as to read: "A bill to permit any State of the United States or any political subdivision of any such State to purchase from the District of Columbia Reformatory at Lorton, Va., gun mountings and carriages for guns for use at historic sites and for museum display purposes."

A motion to reconsider was laid on the table.

Mr. McMILLAN. Mr. Speaker, the District of Columbia Reformatory, at Lorton, Va., has developed a craft of manufacturing replicas of historic gun mountings and carriages, using prison labor to produce these items. These guns have been very much in demand by certain District and Federal agencies and the reformatory from time to time has manufactured such guns for their use.

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 26, 1956
For actions of July 25, 1956
84th-2nd, No. 128

CONTENTS

HIGHLIGHTS: Both Houses cleared for Presidential action the following bills: Farm loan bill; watershed bill; amendments to Public Law 480 bill. House received conference report on mutual security appropriation bill. House passed: housing bill; wheat agreement extension bill and flood insurance bill. Conferees agreed to file report on executive pay and retirement bill. House committee issued reports on Federal timber sales policies and CCC purchase-resale transactions. House committee reported bills to permit national forests receipts paid to States to be used for other than schools and roads, and to authorize USDA to pay expenses of soil and water conservation advisory committee. Rep. Rogers, Fla., introduced bill for appropriations on accrued expenditure basis. Senate committee reported Great Plains bill. Senate committee reported bill to reorganize Federal safety functions. Senate cleared following bills for President: improve budgeting and accounting methods; (Continued on page 8)

SENATE

1. APPROPRIATIONS. Passed with amendment H. R. 12350, the second supplemental appropriation bill for 1957. pp. 13258, 13265, 13275, 13284) Conferees were appointed. (For items of interest to this Department, see Digest 127.)

Agreed to the conference report on H. R. 12138, the first supplemental appropriation bill for 1957. (p. 13286) This bill will now be sent to the President.

2. BUDGETING; ACCOUNTING. Agreed to the conference report on S. 3897, to improve governmental budgeting and accounting methods and procedures. (The House agreed to the report on July 23.) This bill will now be sent to the President. p. 13078

3. EXPENDITURES. The Jt. Committee on Reduction of Nonessential Federal Expenditures submitted a report, "Unexpended Balances, Domestic-Civilian Agencies" (S. Rept. 2803). p. 13070

4. TRANSPORTATION. Agreed to the House amendments to S. 898, to amend the Interstate Commerce Act, with respect to the authority of the ICC to regulate the use by motor carriers of motor vehicles not owned by them (so-called trip leasing bill). This bill will now be sent to the President. p. 13114

Agreed to the House amendments to S. 3391, to provide for the regulation of the interstate transportation of migrant farm workers. This bill will now be sent to the President. p. 13110

5. CUSTOMS. Agreed to the conference report on H. R. 6040, the customs simplification bill. This bill will now be sent to the President. p. 13293

6. SEED. The Finance Committee reported without amendment H. R. 9396, to amend the Tariff Act of 1930 to place guar seed on the free list (S. Rept. 2779). p. 13069

7. SOIL CONSERVATION. The Agriculture and Forestry Committee reported without amendment H. R. 11833, to amend the Soil Conservation and Domestic Allotment Act and the Agricultural Adjustment Act of 1938 to provide for a Great Plains conservation program (S. Rept. 2785). p. 13069

8. SAFETY. The Government Operations Committee reported with amendment S. 3517, to provide for the reorganization of the safety functions of the Federal Government (S. Rept. 2788). p. 13070

9. FLOOD CONTROL. The Public Works Committee reported with amendment H. R. 12080, authorizing the construction, repair, and preservation of certain public works on rivers and harbors for navigation and flood control (S. Rept. 2784) (p.13070). Agreed to consider the measure today under limited debate rule (p. 13265).

10. MILITARY CONSTRUCTION. The Armed Services Committee reported with amendment H. R. 12270, to authorize certain construction at military installations (S. Rept. 2775) (authorizes the use of Public Law 480 and CCC funds for foreign housing construction for military). p. 13070

11. VETERANS' BENEFITS. Sen. Neuberger inserted and commented on a newspaper article discussing the expiration of the "GI Bill of Rights". p. 13083

12. AREA REDEVELOPMENT. Debated, under limited debate rule, S. 2663, to establish an effective program to alleviate conditions of excessive unemployment in certain economically depressed areas (pp. 13108, 13310). Agreed to amendments by Sen. Fulbright to increase from $50 million to $100 million the amount of loan funds available for rural areas; to eliminate the provision in the bill limiting to 300 counties in the U. S. and 15 in any single State which would be available for assistance under the rural development program (there would be no limitation as provided by the amendment); to increase the limitation to $6 million which can be loaned in each State under the rural development porgram; and to strike

agree to have one traffic control system governing all vehicles on the road.

The military development of TACAN obviously alarmed the civilian lines because it threatened the agreed operation of a common system of air navigation and also jeopardized the millions of dollars spent by both the Government and the civilian airlines for the installation of the VOR/DME system. Two incompatible systems of air navigation in the United States would not only compel costly duplications in equipment, but they would amount to a standing appointment with disaster for all air traffic.

The conflict came out into the open when civilian aviation became fully aware of what the military was developing in secret. In an effort to resolve the conflict the Air Navigation Development Board set up a special committee, VORTAC, to conduct a special investigation. The special committee came up with a divided report. Some of its members, chiefly the Army, Navy, and Air Force, favored the TACAN system, while most of civilian aviation favored the VOR/DME in which they had heavily invested in the good faith belief that that was to be the common short distance air navigation system.

The situation, therefore, in the early months of 1955 was that a basic conflict existed between rival air navigation systems which apparently could not be resolved by any Government or private body. The conflict indicated great waste of taxpayers' money as the military branched out on its own with TACAN after agreeing to a common system with civilian aviation. It threatened great delays to civilian airlines, which needed the complete VOR/DME system, particularly for the jet transports which are just over the horizon.

The civilian airlines have been reluctant, in view of this confusion, to make the heavy investments necessary to equip their fleets with DME. Finally, the conflict threatened to throw air navigation into confusion in such important matters as air safety and relief of growing air congestion.

At this point, the situation was brought to my attention. After careful study, I submitted Senate Concurrent Resolution 16 to the Senate on March 10, 1955, calling for a joint congressional committee to investigate the conflict and to recommend a policy to resolve the conflict. It was clear to me then that here was a very important technological conflict affecting heavy investments in money and threatening air safety and air congestion, which could not be resolved by Government or private aviation bodies without a clear mandate of policy by the whole Congress—just as Congress in 1948 had laid down the original policy of a common air navigation system.

My resolution was passed by the Senate on May 5 with some perfecting amendments and went to the House where on May 6 it was referred to the House Committee on Rules. There it was considered along with House Resolution 162, sponsored by Congressman HALE BOGGS, whose resolution was similar to mine with the exception that Mr. BOGGS called for a select committee rather than a joint committee.

As the two resolutions were being considered by the House Rules Committee on May 17, there was placed before the Committee House Report No. 592 made by the House Committee on Interstate and Foreign Commerce the day before, May 16. Briefly this report was grounded upon hearings which attempted to investigate the conflict in air navigation systems. The committee offered recommendations based upon an attempt of the Air Coordinating Committee to resolve the conflict. Although all these recommendations were made in sincerity and good faith, they do not resolve the conflict in air navigation systems. Caught up in the complexities of a complex and evolving technical development, they merely postpone the settlement of the issue—leaving all the confusion, expense, and the threat to air safety and air congestion to carry on for years to come.

Either misled by the belief that the Air Coordinating Committee had resolved the conflict, or discouraged perhaps by the hopelessness of ever doing anything about it, Congressman Boggs withdrew his resolution. The House Rules Committee apparently reached similar conclusions because it took no further action on Senate Concurrent Resolution 16, which I sponsored and which the Senate passed.

Since that time, still another inquiry was made into the situation by the Subcommittee on Military Operations of the House Committee on Government Operations. The findings of this committee are contained in House Report No. 737 filed on June 8, 1955.

The subcommittee's first and most important recommendation is as follows:

"1. The subcommittee recommends that the Congress undertake at once an exhaustive investigation of the relative merits of TACAN and VOR/DME for use in a common system of air navigation which meets both civil and military requirements. This subcommittee endorses the proposal for such an investigation as contained in Senate Concurrent Resolution 16 [my resolution], and urgently recommends that the House of Representatives expedite concurring action on this resolution as amended by House Resolution 128, or action on House Concurrent Resolution 128."

The House subcommittee made several other very worthwhile recommendations, but the one quoted above is the heart of its action. This subcommittee has seen as clearly as I saw more than a year ago that great confusion and a serious conflict in air navigation systems exist and that nobody but the Congress itself is capable of resolving the situation.

The best proof of the way this situation has tied itself into knots lies in all these past investigations, which, for want of proper authority to enforce their recommendations, have ended in blind alleys.

We start with a common air navigation system laid down in 1947–48 by congressional authority. Then the military secretly commences to develop a system at a cost of over $325 million, which threatens to destroy the common system originally agreed upon. When confusion and conflict follow in natural course, everybody gets into the act, but no one has the authority to enforce its decisions or resolve the conflict.

The Air Navigation Development Board considered the matter. Its technical subcommittee VORTAC investigated. The Radio Technical Commission for Aeronautics investigated. Finally, the Air Coordinating Committee investigated the problem. The military did its own investigating and strictly on its own began developing a new system.

All of these bodies came up with recommendations which either revealed division within their own ranks, conflicted with recommendations made by others, or lacked sufficient authority to lay down a policy to resolve the conflict.

This was followed by consideration of the problem by at least 1 Senate committee and some 3 or 4 House committees which, at best, could offer recommendations on which no definite congressional action has been taken.

It is not clear that the one thing lacking in this web of confusion and indecision is an authoritative mandate that only a joint committee of Congress can issue and enforce? That is precisely what my resolution, Senate Concurrent Resolution 16, aims to bring about. That is why the House Government Operations Committee has strongly endorsed my resolution and urged its immediate passage by the House.

Every day we delay joint congressional action we permit deeper confusion, more waste of taxpayers' money for duplicate air navigation systems, and invite new disasters in air operations.

Since Congress last authoritatively set air policies in 1948, enormous technical advances have been made in aviation and in the electronics equipment for air navigation. Planes are larger, swifter, and far more numerous than in 1948. Air congestion is rushing upon us. Air safety has become more vital than ever. Disasters such as we have recently witnessed in Arizona, may become the heavy price we may have to pay for failure to keep air navigation well defined and abreast of the times. We urgently need a new look at air navigation policies with an authority that only the whole Congress can impart.

The final days of the 84th Congress are here. It would be a misfortune we would deeply regret if the session closed without action on Senate Concurrent Resolution 16. The leadership of this Congress, of course, rests with our Democratic friends in both Houses. Republicans cannot put through legislation without their consent and cooperation. We can only urge action and plead for cooperation. In these circumstances, and when the important House Committee on Government Operations also urges the same action, I hope that the House Rules Committee will report out Senate Concurrent Resolution 16 and that the House will pass the resolution.

ILLEGAL PRACTICES IN CONNECTION WITH PLACING OF MINOR CHILDREN FOR PERMANENT FREE CARE OR FOR ADOPTION (S. REPT. NO. 2786)

Mr. KEFAUVER. Mr. President, on behalf of the Committee on the Judiciary, I ask unanimous consent to submit a report on the bill (S. 3021) to amend title 18, United States Code, to make unlawful certain practices in connection with the placing of minor children for permanent free care or for adoption. The proposal would prohibit so-called black marketing of babies for adoption.

Mr. JOHNSON of Texas. I have no objection.

The PRESIDING OFFICER (Mr. FREAR in the chair). The report will be received and the bill will be placed on the calendar.

INTERIM REPORT, JUVENILE DELINQUENCY IN THE TERRITORY OF ALASKA (S. REPT. NO. 2774)

Mr. KEFAUVER. Mr. President, I ask unanimous consent to file an interim report of the subcommittee to investigate juvenile delinquency of the Committee on the Judiciary, dealing with juvenile delinquency in the Territory of Alaska.

The PRESIDING OFFICER. The Chair inquires of the Senator from Tennessee whether this is a report of the subcommittee or a report of the full committee.

Mr. KEFAUVER. It is a report of the full committee.

The PRESIDING OFFICER. The report will be received and printed.

MILITARY AID

Mr. STENNIS. Mr. President, will the Senator from Oregon yield to me.

Mr. NEUBERGER. I yield.

Mr. STENNIS. Mr. President, I voted against the appropriations bill for military aid because I am convinced that the amount provided in the bill, plus the amount already appropriated and unused, is entirely too much money to make available before there is a complete and thorough legislative survey of the entire program, a reappraisal of the world situation, and a new start taken.

We now have $6.4 billion available and on hand for expenditures in future years. Should we appropriate as much as $2 billion for fiscal year 1957, I am satisfied that the program would be continued without interruption and without injury. Because, in my opinion, we are voting far more than is necessary, I am opposing the bill in its present form.

If my vote against this bill meant a stopping of the program, I would have voted otherwise because I think that some military aid is necessary. Further, I feel that this military aid program, on a more limited scale, of course, must be continued for several years, especially in certain critical areas. We should prepare now to continue the program on some scale for perhaps a decade in the future.

It is the very necessity of this continuation of the program that furnishes the compelling reason why we should hold this appropriation to a reduced amount and then resurvey and reappraise the entire program and the world situation before continuing further these expenditures on such a lavish scale. Further, a special study could well be taken of the attitude of the people in the various countries involved, as well as their capacity to carry their part of the burden.

In years past we have been so generous with military aid that some of our allies have been encouraged to postpone rather than hasten their own preparedness program.

Even though the amounts appropriated during the last few fiscal years has been decreasing, the actual sums expended have not decreased in proportion to the decreases in appropriations. This year, we are requested to almost double last year's appropriation.

For illustration, in fiscal year 1953, we appropriated $6 billion for our entire aid program, including military aid and other, and we spent $5.7 billion.

For fiscal year 1954, we reduced the appropriated sum $1.3 billion down to $4.7 billion, but we reduced the expenditures only $0.9 billion, making the expenditures $4.8 billion.

In fiscal year 1955, we further reduced the appropriated sum by $1.9 billion down to $2.8 billion, but actual expenditures were reduced by less than one-third this much—that is, by only $0.6 billion, bringing actual expenditures down to $4.2 billion.

In fiscal year 1956, we reduced the appropriation to $2.7 billion, but actually spent $4.18 billion, virtually the same as in the preceding year.

For fiscal year 1957, we were asked to appropriate almost $4.9 billion, and the bill now before the Senate will appropriate $4.1 billion.

It is gratifying to see that the Congress is recognizing its responsibilities and asserting its own powers in the recent passage by the Senate of a resolution providing for a reconsideration and resurvey of this entire program. This will and should be done from the congressional viewpoint.

There is a natural tendency by those administering the program to continue it on a large scale. Sizable, voluntary reductions in expenditures are seldom made. This is a congressional responsibility which we should not shun. Those of us who feel that some military aid is of necessity a part of our foreign policy are greatly concerned that these expenditures remain within more reasonable limits. Otherwise, the entire program is likely to lose the necessary public support for its continuation.

It is my considered conclusion that the sum appropriated in this bill is far in excess of the amounts required for the essential part of the program for fiscal year 1957, and in protest against this large amount I voted against the bill.

Next year our military-aid program should be fully considered by the Armed Services Committees of both the House and the Senate. Our military aid is definitely a part of our military defense and should have active legislative consideration as a part of our worldwide military program. I shall exert my effort and my influence as a Member of the Senate to see that such a legislative course is adopted regarding all military aid in the future.

Mr. NEUBERGER. Mr. President, I yield to the Senator from New Mexico.

CONSTRUCTION OF A NUCLEAR-POWERED MERCHANT SHIP

Mr. ANDERSON. Mr. President, I am glad to see that both the Senate and House adopted on Monday the conference report on H. R. 6243, the bill authorizing construction of a nuclear-powered merchant ship. I am sorry that I was tied up in a meeting of the Joint Committee on Atomic Energy on Monday, but I would now like to say a few words concerning the reactor to be installed in this ship.

The reactor should not be an exact duplicate of the *Nautilus* reactor. It would be folly to place a 1925 model T engine in a 1956 automobile. Similarly, it would not make sense to take the first power reactor ever developed, designed for use on a submarine, and ignoring subsequent developments, stick that reactor in a newly designed surface ship. It would be far better to take an additional year's time for redesign and development work in order to move clearly forward, and to hasten the day of widespread application of nuclear power by the American merchant marine. The estimated construction time of such a reactor is 39 to 42 months.

I agree with the following statement of the House managers concerning the conference report on this bill:

> It was the contemplation of the conferees that the vessel would contain the most advanced type of reactor possible for a practical merchant ship which would be a definite step forward in the art of nuclear propulsion utilizing all experience and improvements learned to date.

Also, the Commission should not merely construct a *Nautilus* duplicate because of the security restrictions that this might necessitate. It would be tragic indeed to display this ship throughout the world but to keep the design characteristics of the reactor secret.

For these reasons, as well as others, the Atomic Energy Commission should arrange for the construction of an up-to-date, newly designed reactor for installation in this ship.

Mr. NEUBERGER. Mr. President, I shall now yield to the Senator from Massachusetts for the presentation of a conference report.

IMPROVEMENT OF GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES—CONFERENCE REPORT

Mr. KENNEDY. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendment of the House to the bill (S. 3897) to improve governmental budgeting and accounting methods and procedures, and for other purposes. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The Chief Clerk read the report.

(For conference report, see House proceedings of June 23, 1956, p. 12770, CONGRESSIONAL RECORD.)

The PRESIDING OFFICER. Is there objection to the present consideration of the conference report?

Mr. KNOWLAND. Mr. President, I understand this is the conference report about which the Senator spoke to me earlier today. I understand it has been signed by all conferees. Is that correct?

Mr. KENNEDY. The conference report has been signed by a majority of the conferees. Three members did not sign it, two of whom are present on the floor, and no doubt they will have a statement to make relating to it.

The PRESIDING OFFICER. Is there objection to the present consideration of the report?

Mr. COTTON. Mr. President, reserving the right to object, I merely wish to make sure, because the Senator from Massachusetts is presenting the report on time yielded to him by the Senator from Oregon [Mr. NEUBERGER], that other members of the committee on conference may be certain of having sufficient time in which to make statements explaining why they did not sign the report.

Mr. KENNEDY. I believe, unless lengthy debate ensues, it will be agreeable to the Senator from Oregon that the two Senators, the Senator from Maine [Mrs. SMITH] and the Senator from New Hampshire [Mr. COTTON], may make their statements. I am sure they will make their statements within a reasonable time, and in that way we will be able to dispose of the conference report promptly.

Mr. President, the conferees agreed to the House amendment which deleted section 1 (b), (c), and (d) providing

that proposed appropriations be determined on an annual accrued expenditure basis and the lapsing of unused balances of appropriations at the end of each fiscal year.

On the other hand the conferees accepted all of the other provisions of the Senate bill which will permit the agencies to prepare and execute their budgets on a cost basis; bring about closer correlation between budgeting, accounting, and organizational structure; improvement in the budget justifications by inclusions of information on performance and program costs; permit the agencies to maintain their accounts on an accrual basis; integrate the property accounting records with the financial accounting system, and to simplify the allotment accounting system.

One of the most important provisions of the bill was deleted by the House of Representatives, namely, the accrued expenditure basis for determination of appropriations. The acceptance of this amendment became necessary, in the view of a majority of the conferees, because the Appropriations Committee of the House insisted that this provision be deleted. The Senate conferees did everything possible to restore the language of the Senate bill, but it was finally concluded by a majority of the Senate conferees that we would have to forego this objective or enact no legislation on this important bill at this session of Congress. We are not altogether satisfied with this turn of events, but believe that substantial progress will be possible under the language agreed to by the conferees, and for this reason I strongly urge acceptance of the conference report.

It was agreed by conferees of both the House and the Senate that the action of the conferees in adopting the substitute language should not be construed to indicate disapproval of authorization to determine the amounts of proposed appropriations on an annual accrued expenditure basis, but that lack of information at the present time on this important phase of the program made it advisable to defer action until the next Congress.

The House conferees agreed with the Senate conferees that this important provision of the bill should be reconsidered at the next session of the Congress, and it was our understanding that something would be included in the statement of the managers on the part of the House to this effect.

These objectives were submitted to the chairman of the committee of the other body for inclusion in the statement of the managers, but I was surprised to find that the language agreed to was not included in the report.

I have in my hand messages from Mr. J. Harold Stewart, chairman, Hoover Commission Task Force on Budgeting and Accounting; Clarence Francis, chairman, Citizens Committee for the Hoover Report; John Coleman, president, Chamber of Commerce of the United States; Meyer Kestnbaum, special assistant to the President; Percival Brundage, the Director of the Budget; and former President Herbert Hoover.

I ask unanimous consent that the messages be printed in the RECORD at this point.

There being no objection, the communications were ordered to be printed in the RECORD, as follows:

BOHEMIAN GROVE, CALIF., *July 22, 1956.*

Hon. JOHN F. KENNEDY,
United States Senate,
Washington, D. C.:

S. 3897, as presently before the Congress, will, if enacted, carry out certain recommendations of the task force and commission which will provide basic tools in form of cost-based budgets and accrual accounting. These are incidental to the most significant recommendation No. 7 for budget in terms of annual accrued expenditures which fundamental improvement must be sought in the next session of the Congress if it cannot presently be accomplished. I greatly appreciate your statesmanlike effort in this matter for which the country is in your debt.

J. HAROLD STEWART,
Chairman, Hoover Commission Task Force on Bugetry and Accounting.

WASHINGTON, D. C., *July 20, 1956.*

Senator JOHN F. KENNEDY,
Senate Office Building,
Washington, D. C.:

Thank you for your splendid work on behalf of the Hoover Commission's budget and accounting report. While we would have much preferred your Senate version in full, the conference-approved bill will be a major stride in the history of Federal fiscal practice, and lead to important savings. The citizens committee hopes the conference version will be speedily enacted. Please accept our congratulations.

CLARENCE FRANCIS,
Chairman, Citizens Committee for the Hoover Report.

WASHINGTON, D. C., *July 23, 1956.*

Senator JOHN F. KENNEDY,
Senate Office Building:

Strongly recommend approval of conference report on H. R. 11526 to implement Hoover Commission budget and accounting recommendations. Warmest congratulations to members and staff of Reorganizations Subcommittee, Government Operations Committee, for your efforts in behalf of better government at less cost. Sincerely hope next session will approve other fiscal reforms recommended by Commission.

JOHN F. COLEMAN,
President, Chamber of Commerce of the United States.

THE WHITE HOUSE,
Washington, July 23, 1956.

Hon. JOHN F. KENNEDY,
United States Senate,
Washington, D. C.

DEAR SENATOR KENNEDY: Inasmuch as the administration has accepted wholeheartedly the basic recommendations contained in the Hoover Commission Report on Budget and Accounting, those of us who are working to advance these recommendations were very much encouraged by the passage in the Senate of S. 3897. We were hopeful that the House would take similar action. We appreciate the fact that the elimination by the House of the provision for accrual expenditure accounting, which is one of the basic recommendations of the Hoover Commission, raises some question as to the wisdom of enacting any legislation at the present time. Nevertheless, I am of the opinion that the bill as now accepted by the conference committee would be helpful, and would provide a basis for further legislation in the next session of the Congress. Now that Mr. Hoover's reservations have been resolved, I am hopeful that this legislation will be enacted.

Every good citizen should be indebted to you for the great interest that you have taken in the work of the Hoover Commission, and for the leadership that you have assumed in securing congressional action on these recommendations.

Sincerely,

MEYER KESTNBAUM,
Special Assistant to the President.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., July 23, 1956.

Hon. JOHN F. KENNEDY,
Chairman, Subcommittee on Reorganization, Committee on Government Operations, United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: I testified before your subcommittee on June 4, 1956, regarding S. 3897, "To improve governmental budgeting and accounting methods and procedures, and for other purposes." I strongly favored the enactment of the bill including the provision that appropriations be determined on an annual accrued expenditures basis to the maximum extent deemed desirable and practicable by the President. In the course of my testimony, I stated, "We believe that this change would have many advantages both for the legislative and the executive branches."

Since the date of my testimony, I understand that consideration has been given by your subcommittee to the elimination of section 1 (a) of the bill in order to meet the desires of the House. Under the circumstances, I think it important that I clarify my position with respect to this matter.

While I favor putting appropriations on an accrued expenditure basis, and believe that legislation to accomplish this should ultimately be enacted, I regard the other sections of your bill to be of such great importance that I would strongly favor the enactment of your bill even without the section to place appropriations on an annual accrued expenditure basis. In view of the fact that appropriations could not be placed on an accrued expenditure basis until accrual cost accounting is adopted throughout the Government, which will take several years to accomplish, I can see no danger in postponing until next year the enactment of section 1 (a).

Immediate benefits would result from prompt enactment of the remaining portions of the bill. I refer specifically to the following:

Section 1 (b) providing for the development of appropriations from cost based budgets.

Section 2 (a) which would require consistency between accounting and budget classification, and the synchronization of accounting and budget classification and organizational structure.

Section 2 (b) requiring agency accounts to be maintained on an accrual basis.

Section 3 establishing the objective of financing each operating unit at the highest practical level.

I believe that efforts should be made next year to enact another bill containing the substance of section 1 (a) of the present bill, but I would deplore the failure to adopt the other provisions of the bill at this time.

After the situation had been thoroughly explained to Mr. Herbert Hoover, he was in favor of enacting the amended bill as approved by the conference report as was Mr. Clarence Francis and Mr. Meyer Kestnbaum, all of whom are particularly anxious to see the recommendations of the Hoover Commission adopted.

Sincerely yours,

PERCIVAL BRUNDAGE,
Director.

BOHEMIAN GROVE, CALIF., *July 24, 1956.*
Senator JOHN F. KENNEDY,
Senate Office Building,
Washington, D. C.:

I agree completely with position of Stewart task force chairman stated to you in his telegram of the 21st. Sincerely appreciate all your effort which is real leadership.

HEBERT HOOVER.

Mr. KENNEDY. Mr. President, before concluding my statement I should like to express my keen regret that the conferees, from both parties, on behalf of the House of Representatives felt unable to accept the heart of the bill, which would have placed our appropriations on an annual accrued expenditure basis. It would have brought about a most desirable reform in our budgeting and accounting procedures. That was the heart of the Hoover Commission recommendation on budgeting and accounting.

It is most regrettable that the House conferees felt they could not accept the provision because of the opposition of some Members of the House to that reform.

I assure the membership of the Senate that this question will be the primary one before the Subcommittee on Reorganization next year, and it is my hope that the full committee will again be able to report it unanimously to the Senate, and that the Senate will again take prompt action on it. It is my further hope that after some experience has been developed along these lines in Government during the intervening period, we will be able to enact the heart of the program without further delay.

So, while I understand perfectly why my colleagues on the other side did not feel that they could sign the conference report—and I must say that I have great sympathy with their position and at first was inclined to take the same position myself—after talking with the Director of the Bureau of the Budget, I felt that this step forward would be in the public interest, and I reluctantly signed the report, while some conferees who were as keenly disappointed as I was felt constrained to withhold their signatures.

Mrs. SMITH of Maine. Mr. President, will the Senator from Oregon yield?

Mr. NEUBERGER. I yield.

Mrs. SMITH of Maine. Mr. President, I should like to ask the distinguished Senator from Massachusetts, the chairman of the subcommittee, if he included in the RECORD both the telegrams from former President Hoover in his unanimous-consent request.

Mr. KENNEDY. I have not included Mr. Hoover's original telegram, a copy of which I think the Senator from Maine has, which expressed the hope that there would be no compromise of position. I received a second telegram which I assume represents his latest thinking. That is the one I am placing in the RECORD.

Mrs. SMITH of Maine. Mr. President, in order that the RECORD may be clear, I should like to include in it at this point the first telegram which was sent by former President Hoover, dated July 18, 1956, which was a day and a half before he sent the second telegram which has been referred to by the Senator from Massachusetts. I wish to read the telegram:

SAN FRANCISCO, CALIF., *July 18, 1956.*
Hon. JOHN F. KENNEDY,
United States Senate,
Washington, D. C.:

I wish to express my appreciation for the statesmanship you and your colleagues have shown in the legislation which would reform the Federal budget and accounting system. The heart of the Commission's recommendation in this legislation is to restore to the Congress the control of the purse through the provision for a budget based on annual expenditures. The Senate passed this provision without dissent. It is supported by the President, the Comptroller General, and the Director of the Budget and has been widely supported by the press and the public.

The passage of the House version deleting this critical provision would be misleading to the country. My view is that unless the House conferees are willing to yield on this critical provision, the country will be better served by allowing the legislation to die in this session in order that we may have an opportunity to present to the country and the next session the fundamental importance of this issue.

HERBERT HOOVER.

Mr. President, as a member of the Senate conferees I have refused to sign this report. My two colleagues, the Senator from New Hampshire [Mr. COTTON], and the Senator from Iowa [Mr. MARTIN] also have refused to sign it.

This bill, which had so much promise of restoring to the Congress control of the public purse, in my opinion, is now but an empty gesture in that direction.

Stricken from it, at the insistence of the House of Representatives, is its very heart—the Hoover Commission's recommendation that appropriations be made on an accrued-expenditures basis.

There has been a great amount of publicity about implementation of cost-based budgets, accrual accounts, and other improvements in the Government's financial structure by enactment of this legislation.

But, let me point out to Senators there is nothing in this bill which cannot be effectuated by administrative action within the executive branch at the present time or which already is not now being effectuated by administrative action in the various executive agencies.

Any claim that this action by the Congress carries out the Hoover Commission's major recommendations on budgeting and accounting—recommendations which are regarded as among the most important that the Commission presented to the Congress—would be a deception. And to claim that the enactment of this legislation would result in any substantial savings any way near approaching the ridiculous estimates that have been given official credence would be to deliberately mislead the American public.

S. 3897, as introduced, implemented directly the Hoover Commission's recommendations. Thirty-two Senators from both sides of the aisle sponsored it. Extensive hearings were held by the Subcommittee on Reorganization of the Committee on Government Operations. The bill was reported unanimously by the Subcommittee on Reorganization on June 6, 1956. It was reported unanimously by the Senate Committee on Government Operations on June 7, 1956. It was passed unanimously by the United States Senate, by voice vote, on June 20, 1956.

I find from a review of the hearings this bill had the unreserved endorsement of the Government's foremost financial authorities—the Secretary of the Treasury, the Comptroller General of the United States, and the Director of the Bureau of the Budget, each of whom presented testimony upon it. And, in addition, this legislation carried the endorsement of the President of the United States, who, in a special message to the Congress on May 10, 1956, urged early enactment of appropriate legislation on the Hoover Commission's recommendations in this area.

Yet, to my regret, and, I am confident, to the regret of every Member of the Senate who believes in restoring control of the public purse to the Congress, all of this has been lost.

Mr. President, I wish the record to be clear. The above facts show clearly why I, in good conscience, could not agree to the conferees' action.

Mr. COTTON. Mr. President, will the Senator from Oregon yield to me?

Mr. NEUBERGER. I yield.

Mr. COTTON. Mr. President, I do not wish to take the time of the Senate in unnecessary repetition of the statements made by the distinguished Senator from Maine [Mrs. SMITH], indicating why the members of the conference committee on this side of the aisle found themselves unable to sign the conference report on this bill which sought to improve the budgeting and accounting procedures of the Government. I wish, however, in a very brief way, to let the RECORD show exactly the point of disagreement.

It is a question, Mr. President, of tactics. I think the earnest desire of the able Senator from Massachusetts [Mr. KENNEDY] and of his colleagues on the other side of the aisle was exactly the same as our own. We were seeking to find the course we could pursue which would be the most effective in making the Hoover Commission recommendations really an essential part of this all-important measure and enacting their full weight into law.

Mr. President, this budget and accounting bill, which was originally introduced by the able Senator from Massachusetts [Mr. KENNEDY] and the able Senator from Maine [Mr. PAYNE], in my humble opinion, is the keystone of the arch of all the various recommendations of the so-called Hoover Commission. It had the greatest possibilities, it could accomplish the most, and it would give Congress, had it been enacted in the form in which it passed this body, the most important power it could possibly have and the one most vital to the welfare of the American taxpayers, namely, full control of the purse and of all Government spending.

I think it would be of interest to the Senate to realize—and I am sure I speak the fact—that had this bill been the law yesterday, the amendment offered by the distinguished minority leader to the mutual-security bill affecting money in the pipeline for aid to Yugoslavia would

have been in order, because this bill, if enacted, would have given to Congress every year complete control not only of appropriations made for that year, but complete control over money previously appropriated and remaining unspent, in other words, control over money and goods in the pipeline.

Mr. President, when the bill reached the House, the heart of it, as has been so well expressed by the distinguished Senator from Massachusetts [Mr. KENNEDY], was taken out. That portion of the bill which would have meant the ultimate control of some $70 billion in carryover balances from previous appropriations passing through the pipeline was completely stricken and eliminated.

The Senator from Maine [Mrs. SMITH] has referred to the part that remains. Someone has said it is a declaration of policy or of intent on the part of the Congress. I would not even dignify it by saying it is a declaration of intent; I would say it is only a declaration of a hope. It confers upon the executive departments, in my opinion, not a single power which they do not have at present.

The question before the conferees was whether we should accept the bill as it has been emasculated, or whether we should let it die. On the theory or the philosophy that half a loaf is better than none, the conferees, headed by the Senator from Massachusetts, sincerely felt it should be accepted. But, Mr. President, it is not half a loaf. There is no wheat in the bill. The conferees—I think I am expressing the opinion of the Senator from Maine [Mrs. SMITH] and the Senator from Iowa [Mr. MARTIN]—felt that to pass the bill in its present form, which is an utterly empty and meaningless gesture, would be a disservice to the American people, because it would lull them into slumber.

This statement is in no way a reflection on the views or the sincerity of the Senator from Massachusetts, as I feel certain he knows. But we felt it would be a disservice to the American people because it would enable the people, including Members of Congress, who are all human, to say, "Here is another bill, here is another important measure. Which is part and parcel of the Hoover recommendations which have been enacted. This is one more achievement. This means that a larger percentage of the recommendations has been accomplished."

As a matter of fact, not a single dollar will be saved by this bill in its present form. It is highly possible, on the other hand, that more money will be spent, because the bill encourages the setting up of a dual system of bookkeeping in the executive departments without any assurance that the new accrual system will be put into practice or utilized in any way to save a dollar for the taxpayers.

Mr. BRIDGES. Mr. President, will the Senator yield?

Mr. COTTON. I do not have the floor.

Mr. NEUBERGER. I yield to the senior Senator from New Hampshire.

Mr. BRIDGES. I agree with the original intentions of the bill as set forth, but I agree with the junior Senator from New Hampshire that if it shall be finally passed, it will be far from what it should be and far from what I thought it would be.

There was one item in the original bill which I considered highly important, and that was the provision giving the Committee on Appropriations and Congress control over appropriations previously made and in the pipeline. That is vital to the control of those appropriations. Is that provision still in the bill, or was it eliminated?

Mr. COTTON. I answer my distinguished senior colleague from New Hampshire, who incidentally was a sponsor of the bill, by saying that it definitely is not any longer in the bill. I want to repeat the statement I made which I think points up the importance of what he has emphasized; namely, that if this feature had been in the law yesterday, the amendment offered by the minority leader to the mutual security appropriation bill yesterday would have been in order, because Congress would have been in control of the money in the pipeline.

Mr. BRIDGES. I thank the Senator.

Mr. COTTON. The issue then, was a question of whether the conferees would accept a synthetic bill or would refuse to agree to the report and would let the American people know that this great step had not been taken, but still remained to be accomplished.

We felt—at least I felt, and I think my colleagues felt the same way—that the danger in accepting the conference report is that the people of the country, especially those who are interested in the Hoover Commission reports, will come to believe that this bill will lead to accomplishments which, in fact, have not been accomplished, and which we cannot now do because there will not be steam or drive behind this vital budget proposal when Congress reassembles next January.

We felt—and I feel—that it would be far better to have the bill die and to have the people know it died, than to have them falsely believe that something has been accomplished. I believe we should make it perfectly clear that Congress has not taken this vital step in the improvement of our budgets and accountings as recommended by the Hoover Commission.

That is the reason why I was unable to sign the conference report.

Mr. KENNEDY. Mr. President, will the Senator yield?

Mr. NEUBERGER. I yield to the Senator from Massachusetts.

Mr. KENNEDY. I must say that with most of what the junior Senator from New Hampshire has said I am in complete agreement. At least, I took the same position at the beginning as he did, namely, that because what we got in relation to what we wanted was comparatively minor, it would be better to reject the report and to start again next year.

But after talking with the responsible officials of the Government, including the Director of the Bureau of the Budget, who has communicated with me about this matter, I reconsidered my position. I should like to quote a paragraph from the Director's letter:

> While I favor putting appropriations on an accrued expenditure basis, and believe that legislation to accomplish this should ultimately be enacted—

This is important—

> I regard the other sections of your bill to be of such great importance that I would strongly favor the enactment of your bill even without the section to place appropriations on an annual accrued expenditure basis.

It is because of that view, strongly held, which has been expressed in that letter and expressed to me in person, and expressed in a letter by Mr. Kestinbaum; in a telegram by J. Harold Stewart, who directed the task force of the Hoover Commission; and expressed by Herbert Hoover, that I was willing to sign the conference report.

I share the view completely, however, that it is a misfortune of great proportions that our bill was not accepted by the House. It might have been easier to dramatize the issue if we had rejected the report; but because the executive departments felt that it would be a valuable step and would lay the groundwork for later passage of the other provision, I somewhat reluctantly agreed to sign the conference report.

Mr. PAYNE. Mr. President, first of all, I share very much the feeling which has been expressed by my colleague, the distinguished senior Senator from Maine [Mrs. SMITH], and also by the distinguished junior Senator from New Hampshire [Mr. COTTON], as well as the statement which has been made by the distinguished chairman of the subcommittee [Mr. KENNEDY].

It is true, undoubtedly, that under the present structure of our Government the executive department has had, for a long period of time, the perfect right to put into effect much of this cost basis proposal. It is also true that under the present governmental structure the executive branch undoubtedly could have directed the various departments to establish their accounts on an accrual basis.

The fact, however, remains that neither one of those steps—both of them steps which could develop orderly, proper control over Government fiscal operations—has been put into effect, regardless of whether the authority exists or not.

This particular provision of the bill, which does not include, I also admit, the most important provision which was embraced in the bill as originally introduced by the Senator from Massachusetts [Mr. KENNEDY] and myself, along with a number of other sponsors, nevertheless goes to the root of some of the evils which have existed in the Government financial structure.

By this enactment, if this much can go through, there will be conveyed to the executive branch of the Government the mandate of Congress that the departments and agencies of the Government shall start to put their house in order and should adopt a cost-based budget.

So that no one can misunderstand what I mean, let me say that in the past, in submitting budgets for the various departments and in the compiling of the budget for the next fiscal year, the inventories of goods which are on hand devoted to the development of a particular program have never been taken into consideration. Under this proposal it will be necessary to take that into account in determining the additional amount of money which is needed in order to carry out any specific program which is being presented to Congress.

In the establishment of an accrual system of accounting at the staff level in the agencies and departments of Government, the groundwork will be laid that will lead to an orderly development of the accrued expenditure appropriation basis, which must come if Congress is to obtain full and complete control over the expenditures of Government.

Let me say that it was a disappointment to me to find that any Member of the House of Representatives could in any way have held his tongue in check and believed that this type of proposal was going too far in any way, shape, or manner. Anyone who will reflect about it, will realize that the Corps of Engineers, operating as it has done for many years, actually has been operating under the very system this bill proposed originally, namely, on an accrued expenditure basis, from appropriations for 1 year, and 1 year only, in the case of projects which the corps has been able to estimate as being possible of accomplishment in that 1 year. The corps has for a long time worked on contract authorizations with annual appropriations, and it has to come before the appropriate committees to justify, in the next year, the money it needs in furtherance of a project for which the corps has been given a contract authorization. So there is nothing extraordinary and there is nothing new in the proposal. Such a plan has been in operation in that agency. It has also been in operation in the Atomic Energy Commission, and I believe in the reclamation division. So it is unfortunate that the provision has been omitted from the bill; but much as I am disappointed, I am convinced that there is some merit at least in having the Congress of the United States for once lay down a firm and definite mandate to the agencies in charge of our fiscal operations that they shall get their house in order, that they shall start to develop a cost-based system, and that they shall set up their accounts on an accrual basis, which will lead to the development of the other system.

I can assure the Members of the Senate and the American people that, so long as I have a little breath left in me, I shall fight for recognition and understanding by the American people that the provision, which my distinguished colleague [Mrs. SMITH of Maine] has mentioned as having been stripped from the bill must ultimately be adopted to put the house in order; that it is a provision which will help save for the American people a very substantial amount of money; and that it is the only means by which Congress can gain control, which it does not now have, over the moneys it appropriates.

Mr. KENNEDY. I thank the Senator. I will say that will be the first proposed legislation which the Subcommittee on Reorganization will consider next year.

Mr. President, I move that the conference report be agreed to.

The motion was agreed to.

INDIAN TIMBER SALES AND UNFAIR INTEREST CHARGES ON CONTRACTS

Mr. BUSH. Mr. President, will the Senator from Oregon yield to me?

Mr. NEUBERGER. Mr. President, I decline to yield. I have yielded for 55 minutes and to 13 Senators, and I think that represents a reasonable amount of yielding.

The PRESIDING OFFICER. The Senator from Oregon declines to yield.

I

Mr. NEUBERGER. Mr. President, on June 24 last year, I addressed the Senate indicating my concern about the low prices the American Indians were receiving for their timber. I was particularly concerned about the situation on the Quinaielt Reservation in Washington. I have visited this reservation, and I am familiar with the way many of the Indians live on the Olympic Peninsula. Many of them exist under very straitened circumstances. Their allotted share in the tribal timber stands is their only asset. Upon the way this timber is managed depends the economic future of hundreds of Indian families.

I had written to Commissioner Emmons of the Bureau of Indian Affairs about this situation. My inquiry into the Quinaielt timber contracts was in part responsible for the congressional timber hearings which were held in the Northwest last fall.

With a business administration in the saddle, as the then Secretary of the Interior had said, one might expect the Indians would be getting business management. Now I find they have been "given the business."

Not only are the Indians consistently getting too low prices for their timber, the ex-bankers and businessmen who have been acting as trustees for the Indians' affairs even seem a little hazy on simple and compound interest.

Here is what has occurred. On October 1, 1955, the Office of the Secretary of the Interior, on the recommendation of the Commissioner of Indian Affairs, allowed some 1,000 Indian allottees on the Quinaielt Reservation to be saddled with what may total $3½ million in interest charges for advance payments made to them under their long-term timber contracts—contracts which, under the previous national administration, had provided for these advance payments on an interest-free basis.

At the present time, not only are the prices which the Indians receive for their timber about half of its market value, but also the Indians are paying an uncalled-for interest charge.

Last October, when the self-proclaimed business management over in the Department of the Interior took this unprecedented action, they were supposedly raising the price the Indians were getting for their timber. They did raise them. On one contract the increase averaged 47 cents per thousand board-feet—47 cents. At the same time the Indian was socked with a charge of $1.72 per thousand board-feet for interest; and, as if this were not enough, the Indians are being charged an additional 23 cents per thousand board-feet as profit-and-risk allowance on this interest. This raises the total charge to $1.95 per thousand board-feet.

In other words, the Secretary of the Interior determined that the contract price for the Indians' timber was too low by at least $2.42 per thousand board-feet and adjusted the terms of the long-term contract accordingly. Two dollars and forty-two cents is a modest enough adjustment in the light of the price for similar timber in the surrounding area. But, instead of the Indians' receiving this additional $2.42 per thousand board-feet for their timber, their share was increased by 47 cents, while $1.95 was taken right off the contract price of the timber again, in the form of prorated interest and profit-and-risk allowance on the advance payment by the purchaser to the Indians required under the contract. On another contract, I am told, the situation in terms of these charges is even worse.

If the Secretary had done the job to which the Indians are entitled, he would have exerted to the utmost his rights under the contract, so as to raise the price of the Indians' timber to a par with the prices obtained by the Forest Service for adjacent timber. Under the Indian Bureau's long-term contract, the Indians now get an average for all the species on the Quinaielt Reservation of about $10 per 1,000 board-feet, while the Forest Service's competitive sales bring about $19 per thousand average for a comparable combination of species.

II

Perhaps there is little or nothing to be done about the Indian Bureau's long-term timber sale contracts until they have run their course, unfavorable as they have proved to be for the Indians. But this new interest charge on the downpayments to the Indians adds a new and unnecessary burden to these already disadvantageous contracts, and in a manner certain to fall unevenly and unfairly on different Indians.

Under these long-term Indian timber contracts, which may run for one-third of a century, the purchaser wins the right to cut hundreds of millions—perhaps three-fourths of a billion—board-feet of timber. He does not have to keep bidding every year on this timber against competitors hungry for trees. Such an assured timber supply for 20 or 30 years is an exceedingly important and valuable right, as pressure on the limited log supply of the area steadily increases.

In return for this long-term assurance, the purchaser is bound to make certain substantial advance payments. He has to pay 25 percent of the total appraised value during the first year

Public Law 863 - 84th Congress
Chapter 814 - 2d Session
S. 3897

AN ACT

To improve governmental budgeting and accounting methods and procedures, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Government budget and accounting procedure.

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SEC. 1. (a) Section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11), is further amended by inserting "(a)" after the words "SEC. 201."; by changing subsection (a) to subparagraph (1); by adding after subparagraph (1) a new subparagraph "(2) at such times as may be practicable, information on program costs and accomplishments"; by changing subsections (b) through (j) to subparagraphs (3) through (11), respectively. 64 Stat. 832.

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is further amended by inserting "(a)" after the words "SEC. 216." and by adding the following new subsections: 64 Stat. 834.

"(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets. Cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) The Budget and Accounting Procedures Act of 1950 is amended by inserting after section 105 thereof the following new section: 64 Stat. 834. 31 USC 847.

"ACCOUNTING AND BUDGET CLASSIFICATIONS

"SEC. 106. The head of each executive agency shall, in consultation with the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection: 64 Stat. 836. 70 Stat. 782.

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system." 70 Stat. 783.

(c) Section 118 of such Act is amended by inserting "113 (c)" after the words "section 111". 64 Stat. 837. 31 USC 65a.

SIMPLIFICATION OF SYSTEM FOR SUBDIVIDING FUNDS

SEC. 3. Section 3679 (g), Revised Statutes, as amended (31 U. S. C. 665 (g)), is further amended by adding at the end thereof the following sentence: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

Approved August 1, 1956.

GPO 71139